FEDERAL BANKING AGENCY ENFORCEMENT OF TRUTH IN LENDING ACT

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

NINETY-FOURTH CONGRESS

SECOND SESSION

SEPTEMBER 15 AND 16, 1976

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FEDERAL BANKING AGENCY ENFORCEMENT OF TRUTH IN LENDING ACT

WEDNESDAY, SEPTEMBER 15, 1976

HOUSE OF REPRESENTATIVES,
COMMERCE, CONSUMER,
AND MONETARY AFFAIRS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. Benjamin S. Rosenthal (chairman of the subcommittee) presiding.

Present: Representatives Benjamin S. Rosenthal, Robert F. Drinan, Elliott H. Levitas, Anthony Moffett, Garry Brown, and Willis D. Gradison, Jr.

Also present: Peter S. Barash, staff director; Robert H. Dugger, economist; Doris Faye Taylor, clerk; and Henry C. Ruempler, minority professional staff, Committee on Government Operations.

OPENING STATEMENT OF CHAIRMAN ROSENTHAL

Mr. ROSENTHAL. The subcommittee will be in order.

Today, the Commerce, Consumer, and Monetary Affairs Subcommittee begins an examination of Federal enforcement of the Truth in Lending Act.

Truth in lending, enacted by Congress in 1968, is designed to provide borrowers with accurate information on the real cost of loans so that consumers can shop effectively for credit. Violations of truth in lending are often serious matters affecting thousands of borrowers and involving millions of dollars.

Today's hearing also marks the beginning of a series of investigations into the responsiveness of the Federal banking agencies to the needs of consumers. Future investigations will deal with truth in bank advertising, lending discrimination, bank credit cards, and the development of electronic fund transfer systems and the adequacy of consumer information on bank practices.

Today's hearing will focus on the thoroughness of Federal bank truth-in-lending examinations and on the steps Federal regulators can take when violations are found. Testimony will be received on the merits of requiring banks to indemnify borrowers for substantive disclosure errors such as those relating to the annual percentage rate, finance charges, and rescission notices; and on the feasibility of disclosing the identities of banks that are persistently not complying with truth-in-lending regulations.

Federal bank agencies have found very few truth-in-lending violations. This has been interpreted by some as evidence of general bank compliance.

The subcommittee, last spring, became concerned that agency findings of low noncompliance, instead, might be the result of perfunctory and inadequate truth-in-lending examinations.

To obtain an evaluation of Federal banking agency thoroughness, the subcommittee asked the Connecticut, Maine, and Massachusetts banking departments to prepare special reports on truth-in-lending compliance in their States. The Federal banking agencies were requested to prepare similar reports on a State-by-State basis for 11 Northeastern States.

The subcommittee is today releasing the initial results of its analysis of these reports.

As shown in table 1, a comparison of Connecticut, Maine, and Massachusetts compliance with those of the FDIC in these States reveals that State truth-in-lending examiners found far more violations than the FDIC examiners did.

It may be that FDIC examinations find fewer truth-in-lending violations because Connecticut, Maine, and Massachusetts, whose State truth-in-lending standards are equal to or more stringent than Federal requirements, are exempt from Federal truth-in-lending enforcement.

If reliance on State examiners is the reason the FDIC found so few violations in Connecticut, Maine, and Massachusetts, then there should be a substantial increase in noncompliance findings in the other eight Northeastern States.

Table 2 compares FDIC truth-in-lending compliance findings in the nonexempt States of Maryland, Delaware, Pennsylvania, New Jersey, New York, Rhode Island, New Hampshire, and Vermont with those of the exempt States of Connecticut, Maine, and Massachusetts.

The nonexempt States' findings do not appear to be significantly different from exempt State findings. This suggests that FDIC truth-in-lending examinations are no more adequate throughout the country than in Connecticut, Maine, and Massachusetts.

Based on the subcommittee's 3-month investigation, it is possible for me to estimate that across the country there are at least three-quarters of a million loans with significant truth-in-lending violations and overcharges to customers totaling $2.7 million.

[The tables referred to follow:]

FEDERAL BANKING AGENCY ENFORCEMENT
of the
TRUTH IN LENDING ACT

COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE
U.S. HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

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TABLE 1

COMPARISON OF
CONNECTICUT, MASSACHUSETTS, MAINE, AND FDIC
TRUTH IN LENDING COMPLIANCE FINDINGS

	BANKS WITH VIOLATIONS AS A PERCENT OF BANKS EXAMINED 1/ TYPE OF VIOLATION		
	APR	FIN. CHG.	RESC. NOT.
I. COMMERCIAL BANKS			
Connecticut			
FDIC	17%	7%	12%
State Banking Dept.	90%	25%	15%
Maine			
FDIC	18%	9%	5%
State Banking Dept.	69%	56%	50%
Massachusetts			
FDIC	13%	0%	2%
State Banking Dept.	41%	26%	11%
II. SAVINGS BANKS			
Connecticut			
FDIC	3%	0%	3%
State Banking Dept.	72%	41%	34%
Maine			
FDIC	3%	0%	0%
State Banking Dept.	37%	63%	30%
Massachusetts			
FDIC	0%	0%	0%
State Banking Dept.	26%	22%	17%

1/ The data do not reflect followup examinations of the same bank in the same year by the FDIC. These examinations were carried out to correct safety and soundness problems found in the first examination and not for Truth in Lending compliance reasons. The Truth in Lending reviews in the followup examinations may not have received normal emphasis. Their noncompliance findings may be biased downward and therefore may not be representative.

TABLE 2

COMPARISON OF FDIC
COMPLIANCE FINDINGS FOR
EXEMPT AND NON-EXEMPT NORTHEASTERN STATES

	BANKS WITH VIOLATIONS AS A PERCENT OF BANKS EXAMINED 3/		
	TYPE OF VIOLATION		
	APR	FIN. CHG.	RESC. NOT.
I. COMMERCIAL BANKS			
Exempt States 1/ 2/	15%	4%	6%
Non-Exempt States	8%	5%	8%
II. SAVINGS BANKS			
Exempt States	3%	0%	2%
Non-Exempt States	6%	3%	6%

1/ Includes: Connecticut, Maine and Massachusetts. These States are exempted from the requirements of the Truth in Lending Act pursuant to Section 123 of the Act.

2/ Includes: Maryland, Delaware, Pennsylvania, New Jersey, New York, Rhode Island, New Hampshire and Vermont.

3/ The data do not reflect followup examinations of the same bank in the same year by the FDIC. These examinations were carried out to correct safety and soundness problems found in the first examination and not for Truth in Lending compliance reasons. The Truth in Lending reviews in the followup examinations may not have received normal emphasis. Their noncompliance findings may be biased downward and therefore may not be representative.

SUMMARY OF THE
CONNECTICUT
TRUTH IN LENDING COMPLIANCE REPORT

TO THE

COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE

I.	Time Period Covered:	March 1, 1975 through July 31, 1976
II.	Commercial Banks:	
	Number of Banks Examined	20
	Number of Banks With:	
	APR Disclosure Errors	18
	Finance Charge Disclosure Errors	5
	Rescission Notice Disclosure Errors	3
	Other Truth in Lending Violations	15
	Number of Loans Cited With:	
	APR Disclosure Errors	N.A. 1/
	Finance Charge Disclosure Errors	N.A.
	Rescission Notice Disclosure Errors	N.A.
	Other Truth in Lending Violations	N.A.
	Total Number of Loans Cited with Truth in Lending Violations	995
	Average Bank Size (Total Assets, Year-end 1975)	$67.5 million
III.	Savings Banks:	
	Number of Banks Examined	32
	Number of Banks With:	
	APR Disclosure Errors	23
	Finance Charge Disclosure Errors	13
	Rescission Notice Disclosure Errors	11
	Other Truth in Lending Violations	26
	Number of Loans Cited With:	
	APR Disclosure Errors	N.A.
	Finance Charge Disclosure Errors	N.A.
	Rescission Notice Disclosure Errors	N.A.
	Other Truth in Lending Violations	N.A.
	Total Number of Loans Cited with Truth in Lending Violations	1,132
	Average Bank Size (Total Assets, Year-end 1975)	$125.6 million
IV.	Total Monetary Adjustments:	$38,732 2/
V.	Total Number of Loans Cited:	2,127

1/ The format of the Connecticut report does not enable segregation of cited loans by types of violations.
2/ One savings bank required an adjustment of $27,980.

SUMMARY OF FDIC
TRUTH IN LENDING COMPLIANCE FINDINGS
IN CONNECTICUT 1/

I.	Time Period Covered:	March 1, 1975 through July 31, 1976
II.	Commercial Banks:	
	Number of Banks Examined Once:	42
	Number of Banks With:	
	APR Disclosure Errors	7
	Finance Charge Disclosure Errors	3
	Rescission Notice Disclosure Errors	5
	Other Truth in Lending Violations	17
	Number of Loans Cited With:	
	APR Disclosure Errors	NA 2/
	Finance Charge Disclosure Errors	NA
	Rescission Notice Disclosure Errors	NA
	Other Truth In Lending Violations	NA
	Total Number of Loans Cited with Truth In Lending Violations	NA
	Average Bank Size (Total Assets, Year-end 1975)	$68.1 million
III.	Savings Banks:	
	Number of Banks Examined Once:	63
	Number of Banks With:	
	APR Disclosure Errors	2
	Finance Charge Disclosure Errors	0
	Rescission Notice Disclosure Errors	2
	Other Truth In Lending Violations	3
	Number of Loans Cited With:	
	APR Disclosure Errors	NA 2/
	Finance Charge Disclosure Errors	NA
	Rescission Notice Disclosure Errors	NA
	Other Truth In Lending Violations	NA
	Total Number of Loans Cited with Truth In Lending Violations	NA
	Average Bank Size (Total Assets, Year-end 1975)	$143.8 million
IV.	Total Monetary Adjustments:	NA 3/
V.	Total Number of Loans Cited:	NA 2/

1/ Reflects compliance reports received in the Washington Office through September 3, 1976.
2/ The FDIC Truth in Lending Report (FDIC 5600/55(12-74)) does not provide for listing loans with violations or segregation by type of violation.
3/ The FDIC has not required banks to reimburse borrowers.

(FDIC Connecticut Compliance Report Cont.) 2

VI. Commercial Banks:

Number of Banks Examined Twice:	12
Number of Banks With:	
APR Disclosure Errors	3
Finance Charge Disclosure Errors	0
Rescission Notice Disclosure Errors	1
Other Truth In Lending Violations	4

VII. Savings Banks:

Number of Banks Examined Twice:	21
Number of Banks With:	
APR Disclosure Errors	1
Finance Charge Disclosure Errors	1
Rescission Notice Disclosure Errors	1
Other Truth In Lending Violations	2

VIII. Commercial Banks:

Number of Banks Examined Thrice:	0
Number of Banks With:	
APR Disclosure Errors	
Finance Charge Disclosure Errors	
Rescission Notice Disclosure Errors	
Other Truth In Lending Violations	

IX. Savings Banks:

Number of Banks Examined Thrice:	2
Number of Banks With:	
APR Disclosure Errors	0
Finance Charge Disclosure Errors	0
Rescission Notice Disclosure Errors	0
Other Truth In Lending Violations	0

SUMMARY OF THE
MAINE
TRUTH IN LENDING COMPLIANCE REPORT

To The

COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE

I. Time Period Covered: November 1, 1975 through August 31, 1976

II. Commercial Banks:

Number of Banks Examined	16
Number of Banks With:	
APR Disclosure Errors	11
Finance Charge Disclosure Errors	9
Rescission Notice Disclosure Errors	8
Other Truth in Lending Violations	14
Number of Loans Cited With:	
APR Disclosure Errors	35
Finance Charge Disclosure Errors	24 1/
Rescission Notice Disclosure Errors	68
Other Truth In Lending Violations	113
Total Number of Loans Cited with Truth in Lending Violations	240
Average Bank Size (Total Assets, Year-end 1975)	$69.5 million

III. Savings Banks:

Number of Banks Examined	27
Number of Banks With:	
APR Disclosure Errors	10
Finance Charge Disclosure Errors	17
Rescission Notice Disclosure Errors	8
Other Truth In Lending Violations	18
Number of Loans Cited With:	
APR Disclosure Errors	37
Finance Charge Disclosure Errors	325 1/2/
Rescission Notice Disclosure Errors	33
Other Truth in Lending Violations	238
Total Number of Loans Cited with Truth in Lending Violations	633
Average Bank Size (Total Assets, Year-end 1975)	$56.3 million

IV. Total Monetary Adjustments: N.A.

V. Total Number of Loans Cited: 873

1/ Estimate
2/ One savings bank had 261 cited loans.

SUMMARY OF FDIC
TRUTH IN LENDING COMPLIANCE FINDINGS
IN MAINE 1/

I.	Time Period Covered:	March 1, 1975 through July 31, 1976
II.	Commercial Banks:	
	Number of Banks Examined Once:	22
	Number of Banks With:	
	APR Disclosure Errors	4
	Finance Charge Disclosure Errors	2
	Rescission Notice Disclosure Errors	1
	Other Truth in Lending Violations	6
	Number of Loans Cited With:	
	APR Disclosure Errors	NA 2/
	Finance Charge Disclosure Errors	NA
	Rescission Notice Disclosure Errors	NA
	Other Truth In Lending Violations	NA
	Total Number of Loans Cited with Truth In Lending Violations	NA
	Average Bank Size (Total Assets, Year-end 1975)	$42.4 million
III.	Savings Banks:	
	Number of Banks Examined Once:	32
	Number of Banks With:	
	APR Disclosure Errors	1
	Finance Charge Disclosure Errors	0
	Rescission Notice Disclosure Errors	0
	Other Truth In Lending Violations	1
	Number of Loans Cited With:	
	APR Disclosure Errors	NA 2/
	Finance Charge Disclosure Errors	NA
	Rescission Notice Disclosure Errors	NA
	Other Truth In Lending Violations	NA
	Total Number of Loans Cited with Truth In Lending Violations	NA
	Average Bank Size (Total Assets, Year-end 1975)	$54.8 million
IV.	Total Monetary Adjustments:	NA 3/
V.	Total Number of Loans Cited:	NA 2/

1/ Reflects compliance reports received in the Washington Office through September 3, 1976.
2/ The FDIC Truth in Lending Report (FDIC 5600/55(12-74)) does not provide for listing loans with violations or segregation by type of violation.
3/ The FDIC has not required banks to reimburse borrowers.

(FDIC Maine Compliance Report Cont.) 2

VI. Commercial Banks:

Number of Banks Examined Twice:	6
Number of Banks With:	
APR Disclosure Errors	1
Finance Charge Disclosure Errors	0
Rescission Notice Disclosure Errors	0
Other Truth In Lending Violations	1

VII. Savings Banks:

Number of Banks Examined Twice:	11
Number of Banks With:	
APR Disclosure Errors	1
Finance Charge Disclosure Errors	0
Rescission Notice Disclosure Errors	0
Other Truth In Lending Violations	2

VIII. Commercial Banks:

Number of Banks Examined Thrice:	0
Number of Banks With:	
APR Disclosure Errors	
Finance Charge Disclosure Errors	
Rescission Notice Disclosure Errors	
Other Truth In Lending Violations	

IX. Savings Banks:

Number of Banks Examined Thrice:	0
Number of Banks With:	
APR Disclosure Errors	
Finance Charge Disclosure Errors	
Rescission Notice Disclosure Errors	
Other Truth In Lending Violations	

SUMMARY OF THE
MASSACHUSETTS
TRUTH IN LENDING COMPLIANCE REPORT

To The

COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE

I.	Time Period Covered:	February 1, 1976 through June 20, 1976
II.	Commercial Banks:	
	Number of Banks Examined:	27
	Number of Banks With:	
	APR Disclosure Errors	11
	Finance Charge Disclosure Errors	7
	Rescission Notice Disclosure Errors	3
	Other Truth in Lending Violations	21
	Number of Loans Cited With:	
	APR Disclosure Errors	N.A.1/
	Finance Charge Disclosure Errors	N.A.
	Rescission Notice Disclosure Errors	N.A.
	Other Truth in Lending Violations	N.A.
	Total Number of Loans Cited with Truth in Lending Violations	2,254
	Average Bank Size (Total Assets, Mid-year 1976)	$61.0 million
III.	Savings Banks:	
	Number of Banks Examined:	46
	Number of Banks With:	
	APR Disclosure Errors	12
	Finance Charge Disclosure Errors	10
	Rescission Notice Disclosure Errors	8
	Other Truth in Lending Violations	23
	Number of Loans Cited With:	
	APR Disclosure Errors	N.A.
	Finance Charge Disclosure Errors	N.A.
	Rescission Notice Disclosure Errors	N.A.
	Other Truth in Lending Violations	N.A.
	Total Number of Loans Cited with Truth in Lending Violations	2,855
	Average Bank Size (Total Assets, Mid-year 1976)	$131.6 million
IV.	Total Monetary Adjustments:	N.A.
V.	Total Number of Loans Cited:	5,109

1/ The format of the Massachusetts report does not enable segregation of cited loans by type of violation.

SUMMARY OF FDIC
TRUTH IN LENDING COMPLIANCE FINDINGS
IN MASSACHUSETTS 1/

I.	Time Period Covered:	March 1, 1976 through July 31, 1976
II.	Commercial Banks:	
	Number of Banks Examined Once:	53
	Number of Banks With:	
	APR Disclosure Errors	7
	Finance Charge Disclosure Errors	0
	Rescission Notice Disclosure Errors	1
	Other Truth in Lending Violations	24
	Number of Loans Cited With:	
	APR Disclosure Errors	NA 2/
	Finance Charge Disclosure Errors	NA
	Rescission Notice Disclosure Errors	NA
	Other Truth In Lending Violations	NA
	Total Number of Loans Cited with Truth In Lending Violations	NA
	Average Bank Size (Total Assets, Year-end 1975)	$50.6 million
III.	Savings Banks:	
	Number of Banks Examined Once:	14
	Number of Banks With:	
	APR Disclosure Errors	0
	Finance Charge Disclosure Errors	0
	Rescission Notice Disclosure Errors	0
	Other Truth In Lending Violations	1
	Number of Loans Cited With:	
	APR Disclosure Errors	NA 2/
	Finance Charge Disclosure Errors	NA
	Rescission Notice Disclosure Errors	NA
	Other Truth In Lending Violations	NA
	Total Number of Loans Cited with Truth In Lending Violations	NA
	Average Bank Size (Total Assets, Year-end 1975)	$284.1 million
IV.	Total Monetary Adjustments:	NA 3/
V.	Total Number of Loans Cited:	NA 2/

1/ Reflects compliance reports received in the Washington Office through September 3, 1976.
2/ The FDIC Truth in Lending Report (FDIC 5600/55(12-74)) does not provide for listing loans with violations or segregation by type of violation.
3/ The FDIC has not required banks to reimburse borrowers.

(FDIC Massachusetts Compliance Report Cont.) 2

VI. Commercial Banks:

Number of Banks Examined Twice:	28
Number of Banks With:	
APR Disclosure Errors	1
Finance Charge Disclosure Errors	0
Rescission Notice Disclosure Errors	4
Other Truth In Lending Violations	10

VII. Savings Banks:

Number of Banks Examined Twice:	3
Number of Banks With:	
APR Disclosure Errors	0
Finance Charge Disclosure Errors	1
Rescission Notice Disclosure Errors	0
Other Truth In Lending Violations	2

VIII. Commercial Banks:

Number of Banks Examined Thrice:	2
Number of Banks With:	
APR Disclosure Errors	1
Finance Charge Disclosure Errors	0
Rescission Notice Disclosure Errors	0
Other Truth In Lending Violations	3

IX. Savings Banks:

Number of Banks Examined Thrice:	0
Number of Banks With:	
APR Disclosure Errors	
Finance Charge Disclosure Errors	
Rescission Notice Disclosure Errors	
Other Truth In Lending Violations	

TRUTH IN LENDING COMPLIANCE EXAMINATIONS CONDUCTED BY THE FDIC
IN THE STATES LISTED FOR
THE PERIOD FROM MARCH 1, 1975 THROUGH JULY 31, 1976

	AVERAGE SIZE OF BANKS EXAMINED*		NUMBER OF BANKS EXAMINED AT LEAST ONCE DURING THE PERIOD**		RESULTS OF INITIAL EXAMINATION-- NUMBER OF REPORTS CITING VIOLATIONS		NUMBER OF NEGATIVE RESPONSES TO EACH OF THE ITEMS 1 THROUGH 9 ON THE FDIC REGULATION Z COMPLIANCE REPORT (Form 6500/55)																					
							1		2		3a		3b		4		5		6		7		8		9			
	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C		
CONNECTICUT	143,807	68,175	63	42	5	15	-	3	2	7	1	1	-	3	2	11	-	2	2	5	-	-	-	-	-	-		
MAINE	54,817	42,423	32	22	1	7	-	2	1	4	-	-	-	-	1	5	-	1	-	1	-	-	-	-	-	-		
MASSACHUSETTS	284,148	50,614	14	53	1	22	-	-	-	7	-	1	-	2	1	17	-	2	-	1	-	2	-	-	-	-		
NEW HAMPSHIRE	65,973	23,121	28	29	11	18	3	-	7	4	-	-	-	1	9	15	-	2	7	6	-	-	-	-	-	-		
RHODE ISLAND	223,008	125,777	6	9	0	1	-	-	-	1	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-		
VERMONT	93,025	78,497	6	14	2	10	-	2	-	7	-	-	-	-	2	7	-	1	-	1	-	1	-	-	-	-		
NEW JERSEY	284,470	53,649	19	67	1	6	-	1	-	-	-	-	-	-	1	6	-	2	-	6	-	1	-	-	-	-		
NEW YORK	580,716	111,861	114	45	15	8	2	-	3	-	-	1	-	-	13	4	-	4	2	-	-	-	-	-	-	-		
DELAWARE	-	213,536	-	12	-	9	-	1	-	2	-	-	-	-	-	8	-	-	-	3	-	1	-	-	-	-		
MARYLAND	365,474	67,697	2	62	1	28	-	5	-	5	-	-	-	-	-	16	-	2	-	13	1	1	-	-	-	-		
PENNSYLVANIA	1,051,167	98,772	8	123	1	77	-	8	-	9	-	3	-	5	1	57	-	1	2	1	-	3	-	1	-	5		

*In thousands of dollars based on total assets as of 12-31-75.
**Based on compliance reports received in the Washington Office through 9-3-76.

C = Commercial banks
M = Mutual savings banks

	NUMBER OF BANKS EXAMINED TWICE DURING THE PERIOD		RESULTS OF SECOND EXAMINATION-- NUMBER OF REPORTS CITING VIOLATIONS		NUMBER OF NEGATIVE RESPONSES TO EACH OF THE ITEMS 1 THROUGH 9 ON THE FDIC REGULATION Z COMPLIANCE REPORT (Form 6500/55)																			
					1		2		3a		3b		4		5		6		7		8		9	
	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C
CONNECTICUT	21	12	2	5	1	-	1	3	-	-	-	-	2	4	-	-	1	1	-	-	-	-	-	-
MAINE	11	6	1	1	-	-	1	1	-	-	-	-	1	1	-	-	-	-	1	-	-	-	-	-
MASSACHUSETTS	3	28	2	9	1	-	-	1	-	2	-	2	1	5	-	1	-	4	1	-	-	-	-	-
NEW HAMPSHIRE	2	2	1	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-
RHODE ISLAND	5	7	1	1	-	-	1	-	-	1	-	1	1	-	-	-	-	-	-	-	-	-	-	-
VERMONT	4	4	2	2	-	1	-	-	-	-	-	-	2	2	-	-	-	-	-	-	-	-	-	-
NEW JERSEY	2	17	1	8	1	-	-	1	-	2	-	1	1	6	-	-	-	3	-	1	-	-	-	-
NEW YORK	31	16	7	5	1	1	-	1	-	-	-	-	4	5	-	1	3	-	-	-	-	-	-	-
DELAWARE	-	1	-	1	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-
MARYLAND	3	17	-	6	-	2	-	1	-	-	-	-	-	4	-	-	-	4	-	-	-	-	-	-
PENNSYLVANIA	-	26	-	8	-	-	-	-	-	-	-	-	-	4	-	3	-	3	-	-	-	-	-	1

	NUMBER OF BANKS EXAMINED THRICE DURING THE PERIOD		RESULTS OF THIRD EXAMINATION--- NUMBER OF REPORTS CITING VIOLATIONS		NUMBER OF NEGATIVE RESPONSES TO EACH OF THE ITEMS 1 THROUGH 9 ON THE FDIC REGULATION Z COMPLIANCE REPORT (Form 6500/55)																			
					1		2		3a		3b		4		5		6		7		8		9	
	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C
CONNECTICUT	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MAINE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MASSACHUSETTS	-	2	-	2	-	-	-	1	-	-	-	1	-	2	-	-	-	-	-	-	-	-	-	-
NEW HAMPSHIRE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RHODE ISLAND	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VERMONT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NEW JERSEY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NEW YORK	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DELAWARE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MARYLAND	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PENNSYLVANIA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

BOARD OF GOVERNORS OF THE FEDERAL RESERVE

TRUTH IN LENDING COMPLIANCE BY STATE MEMBER BANKS IN SELECTED STATES
(Examined March 1, 1975, through July 31, 1976)

States	Violations Discovered Regarding:				Number of Banks Examined	Total Assets (000) (Average)
	Disclosure	Dealer Paper	Advertising	Right of Rescission		
New Hampshire	0	0	0	0	1	$ 25,761
New York	1,295*	0	0	1	93	1,634,000
New Jersey	14	3	2	4	28	186,075
Pennsylvania	19	0	2	3	17	469,640
Maryland	0	1	0	1	6	176,424

*As a supplement to the regular examination procedures, the New York Federal Reserve Bank reviews disclosure forms for the State member banks under its jurisdiction. This figure includes disclosure of form violations discovered through this process from the beginning of 1975 through June, 1976.

SUMMARY OF THE
SPECIAL COMPTROLLER OF THE CURRENCY SURVEY
OF NATIONAL BANK TRUTH IN LENDING COMPLIANCE
IN NEW ENGLAND

I.	Time Period Covered	November 1974 through March 1976
II.	National Banks:	
	Number of Banks Examined	26
	Number of Banks With:	
	APR Disclosure Errors	21
	Finance Charge Disclosure Errors	24
	Rescission Notice Disclosure Errors	7
	Other Truth In Lending Violations	26
	Number of Loans Cited With:	
	APR Disclosure Errors	NA
	Finance Charge Disclosure Errors	NA
	Rescission Notice Disclosure Errors	NA
	Other Truth In Lending Violations	NA
	Total Number of Loans Cited with Truth In Lending Violations	NA
	Average Bank Size (Total Assets, Year-end 1975)	NA
III.	Total Monetary Adjustments:	$46,475 1/

1/ One national bank required an adjustment of $30,974.

Mr. ROSENTHAL. We are very pleased this morning that we have a very distinguished, knowledgeable, and expert panel of witnesses who have been extraordinarly cooperative with the subcommittee's requests in this arena.

Our witnesses will appear as a panel. They consist of Mr. Peter Schuck, representing Consumers Union, Mr. Lawrence Connell, bank commissioner for the State of Connecticut, Mr. John Quinn, the superintendent of the Department of Business Regulations for the State of Maine, and Ms. Carol Greenwald, the commissioner of banks for the State of Massachusetts.

Again, on behalf of my colleagues on the subcommittee, let me thank all of you for coming here and for your enormous cooperation in this area.

Mr. Schuck, would you lead off?

STATEMENT OF PETER H. SCHUCK, CONSUMERS UNION OF THE UNITED STATES, INC.

Mr. SCHUCK. Thank you, Mr. Chairman. We are pleased to be here today to testify on the important subject of truth-in-lending enforcement.

I wanted to bring to your attention a particular incident which has come to our attention concerning enforcement by the Comptroller of the Currency in truth-in-lending compliance by national banks.

I do not know how representative it is of the enforcement activities of the other Federal banking agencies but I offer it for what it is worth. My suspicion, however, is that it is probably typical of the attitudes of other Federal banking regulators.

In early May, we learned of a special survey that had been conducted by the Comptroller's Office of truth-in-lending compliance by national banks. At a meeting of the Advisory Committee of the Comptroller, it was announced that the Office had found "an alarming degree of substantial noncompliance" with regulation Z.

At that meeting, I interrogated the official who was reporting on that survey and he responded that the Office had made the decision not to make the findings public. When I pressed them, they agreed to make the findings public but only so long as the bank names were deleted.

So far as I can tell, they have never made either the bank names or the findings, without the bank names, public.

We spent the next 3½ months trying to persuade the Comptroller's Office to divulge the survey and the names of the banks. In the course of those discussions, we learned that several of the violations had involved lots of money and involved a course of conduct on the part of the banks extending over some period of time.

We also learned that the Comptroller's Office had been engaged in lengthy negotiations with the banks in an effort to obtain some recognition of their violations and that these negotiations had been unavailing and had not led to any remedial action by the banks.

I also learned that the Comptroller's Office had not informed the victimized consumers of what the Office had found in its survey and that, in some cases at least—perhaps all of the cases—the statute of limitations on the private cause of action contained in the Truth in Lending Act had run.

We made a Freedom of Information Act request for this information. We indicated that we were not interested in the names of the borrowers from the banks or any other identifying details of the financial transactions.

We did, however, want the names of the banks and a description of the kinds and magnitudes of violations that were involved.

The Comptroller's Office denied our request, citing a number of exemptions which, in my legal opinion, are not applicable. They continued to stress the right of privacy of the banks, even after we had made it clear that, by the nature of our request, the right of privacy of the borrowers was not at issue since we did not want any identifying details.

They also cited a Federal statute—12 U.S.C. 481—as a justification for withholding the data. This is an interesting citation since a cursory perusal of that section makes it clear that Congress actually authorized the Comptroller to release the entire examination report if the Comptroller made recommendations to a bank which the Comptroller deemed were not being complied with.

Therefore, far from constituting a blanket protection for examination reports, the provision in question in fact contemplates that entire examination reports will be fully disclosed under certain circumstances.

As a result of our inability to obtain the documents, we brought suit on August 17, under the Freedom of Information Act and that suit is still pending.

I submit that the pattern of conduct by the Comptroller's Office that I have just described is not law enforcement at all but is likely to have the effect of weakening the deterrents to violations of the law by protecting banks from the consequences of their violations.

The Consumer Credit Protection Act relies for its enforcement principally upon administrative penalties meted out by the Comptroller's Office and the other banking agency and private civil remedies invoked by victimized consumers.

The protracted negotiations which have occurred and continue to occur with banks that have apparently engaged in systematic and substantial violations of the law make a mockery of the administrative deterrent envisaged by section 108 of the act.

Similarly, the secrecy that shields banks from adverse publicity in the case of substantial violations weakens those deterrents. This is particularly true when the agency—even if successful in its negotiations—will not penalize the offending banks but will simply restore them to the position they would have been in had they not violated the law.

An enforcement policy like this diminishes the incentive to comply with the law. Moreover, by failing to inform the victimized consumer of what the agency has found, the Comptroller has extracted the only remaining tooth in the enforcement bite that Congress built into the act.

Congress recognized that private enforcement must be the mainstay of the act and, to that end, provided important private remedies in section 130 of the act, including statutory minimum and punitive damages, statutory class actions, and statutory reimbursement for attorneys' fees and costs.

Yet, the Comptroller, by withholding his findings from the public and particularly from the borrowers, whose rights were apparently violated, has allowed the statute of limitations on those rights to expire.

Certainly, there is no legal bar to such disclosure. As I have indicated, the provision which they cite contemplates this kind of disclosure in precisely this kind of situation.

However, the act itself provides all sorts of protection to the banks such as the bona fide error defense and the 15-day correction period. It is at least as feasible for the Comptroller or the bank to inform the public or, at least, inform the victimized borrower about apparent violations of the truth-in-lending law in a manner that is fair to all parties as it is for the Consumer Product Safety Commission to inform the public about apparently unsafe products as it is permitted to do under section 6(B) of the Product Safety Act.

In sum, the Comptroller's Office does not appear to have applied nearly as much imagination to figuring out ways to protect consumers from apparent violations of the act as it has to figuring out new arguments for protecting apparent violators from the administrative and private remedies established by Congress.

This subcommittee should press the new Comptroller to make public the results of all truth-in-lending compliance surveys and reports in a timely fashion and in a way that protects the borrowers confidentiality and is fair to the banks.

The regional offices of the bank regulatory agencies should follow the lead of many local consumer groups and conduct regular surveys by telephone and in person, officially and posing as consumers, of compliance by local banks.

Finally, if these hearings produce evidence that the enforcement efforts of the other regulatory agencies are as weak as the Comptroller's appear to be, the subcommittee should seriously consider urging the banking committees to remove enforcement authority from these agencies and place it in the Federal Trade Commission.

The FTC, of course, has substantial expertise in enforcement of truth in lending against nonbank creditors and would be free of the kind of regulatory ambivalence to which the Comptroller's Office is so obviously subject.

Thank you.

Mr. ROSENTHAL. Thank you very much, Mr. Schuck. Without objection, your entire statement shall be included in the record.

[Mr. Schuck's prepared statement follows:]

PREPARED STATEMENT OF PETER H. SCHUCK, CONSUMERS UNION OF THE UNITED STATES, INC.

Mr. Chairman and Members of the Subcommittee:

I wish to thank the Subcommittee for inviting Consumers Union[1] to testify at these hearings concerning the enforcement of the Consumer Credit Protection Act by the Federal agencies. As you may recall, Consumers Union was one of the early advocates of truth-in-lending legislation and we retain our interest in its vigorous enforcement.

It is for this reason that we wish to bring to your attention a dismaying instance of secrecy, sluggishness, and desultory truth-in-lending enforcement by the Comptroller's Office. I cannot say whether this example is typical or atypical of the activities and attitudes of the bank regulatory agencies, for I have not investigated this subject generally. This particular instance came to my attention in my capacity as a member of the Comptroller's National Advisory Committee, and I submit it to you for whatever light it may throw on the subject of these hearings.

During a meeting of the Advisory Committee in early May, a member of the Comptroller's staff mentioned that "a comprehensive examination" by their office had revealed "an alarming degree of substantial non-compliance" with Regulation Z by the surveyed banks, and indicated to the Advisory Committee (virtually all of whom were

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[1] Consumers Union is a nonprofit membership organization chartered in 1936 under the laws of the State of New York to provide information, education and counsel about consumer goods and services and the management of the family income. Consumers Union's income is derived solely from the sale of Consumer Reports, other publications and films. Expenses of occasional public service efforts may be met, in part, by nonrestrictive, noncommercial grants and fees. In addition to reports on Consumers Union's own product testing, Consumer Reports, with its almost 2 million circulation, regularly carries articles on health, product safety, marketplace economics, and legislative, judicial and regulatory actions which affect consumer welfare. Consumers Union's publications carry no advertising and receive no commercial support.

bankers) that the office was exhorting the national banks to "try to tighten up your controls."[1] I asked the speaker whether the results of this survey had been made public and he said that they had not been. When I asked the reason, he responded that the information was confidential. I pointed out that whatever confidentiality arguments might be made concerning some of this information it was clear that at the very least, a summary of the survey results, without the names of banks, should be made public, particularly since the Act was designed so as to rely upon considerable private enforcement. At this point, the Comptroller, Mr. Smith, interjected to assure me that he would have no objections to releasing the findings, so long as no bank names were divulged.[2] Subsequently, the Office informed me that the survey had been conducted by means of letters from the regional offices to banks, which elicited written submissions by the banks, which were then analyzed by the Comptroller's Office.

On May 21, I submitted a formal request for the submissions which the banks had made, as well as the Office's analysis of those submissions. I explicitly requested the names of the banks. On June 7, my request was formally denied on the basis of exemptions 5 and 8 under the Freedom of Information Act, relating to interagency memoranda and "examination, operating, or condition" reports, respectively. I was also informed that since the nonc-compliance had turned up from "a localized test examination of the banks involved" which was neither a random nor statistical sampling of all national banks, "the results cannot be justly extrapolated to the national banking system as a whole" and that it would therefore be "unfair to single out these individual institutions for a subjective disclosure.[3]

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1 Transcript of May 3, 1976 National Advisory Committee meeting, p. 18.

2 Id, p. 22.

3 This is apparently the policy of the Federal Home Loan Bank Board as well. See letter of April 26, 1976 from Garth Marston, of FHLBB to Carl Shoolman, Esq.

In my administrative appeal, dated June 9, I pointed out that exemption 5 did not apply, since the documents were not interagency memoranda but were received from private parties outside the agency and that exemption 8 did not apply, since that exemption was designed to protect information concerning the banks' solvency or confidential financial condition, not information concerning the banks' violations of law. In addition, I stated that even if the Comptroller had the legal right to withhold the documents (which, in our view, he does not), the purposes of the truth-in-lending law would be served by a discretionary disclosure of the documents, and that the fact that the survey results could not necessarily be extrapolated to the entire system was a wholly inadequate reason for secrecy.

On July 2, the Comptroller's Office again denied my request citing three new exemptions, ignoring the arguments and authorities which I had cited, and directing my attention to 12 U.S.C. §481, stating that "it appears that the Office does not have the unbridled discretion to release examination reports that you assert." 12 U.S.C. §481, however, says nothing of the sort. It not only says nothing about withholding such reports from the public but in fact provides specifically that upon 90 days notice to a bank, the Comptroller may "publish" the examination report if the bank does not comply with the examiner's recommendations or suggestions within 120 days in a manner satisfactory to the Comptroller.

On July 8, I tried once again, pointing out that since our request did not extend to either the identity of bank customers or to any details of the financial transactions, but only to the names of the banks and the extent of their noncompliance with the law, the confidentiality argument was a red herring and certainly could not justify the wholesale and generalized withholding of the documents. I therefore requested the more particularized justification of non-disclosure that is required by law. Vaughn v. Rosen, 484 F.2d 820, 826-28 (D.C. Cir. 1973) cert. denied 415 U.S. 977 (1974).

Shortly thereafter, I and Jonathan Brown of the Public Interest Research Group met with the Comptroller and some members of his staff.

In response to our questions, they informed us that nearly all of the banks which had been surveyed had been found to be in non-compliance,[1] that they deemed many of the violations to be "technical" but that a few of the violations had apparently occurred over some period of time and involved a great deal of money. They indicated that they were attempting to persuade the offending banks to repay the overcharges, but some of the banks, including some with substantial violations, continued their refusal to make restitution. I asked whether the Office had informed the victimized consumers of its findings, and was told that it had not. I then asked whether the statute of limitations had run on these violations while the Comptroller was secretly negotiating with the banks. The answer was "probably". Mr. Brown inquired whether the restitution that the Comptroller's Office envisioned was simply restitution of the difference between what the consumer paid and what he or she should have paid; the answer was "yes", thus implying that no penalty for non-compliance was to be imposed.

What was perhaps most striking to me about this meeting was how pleased and proud the Comptroller and staff were of these efforts. They honestly believed that they were engaged in vigorous enforcement of the law and were protecting the rights of consumers. Indeed, they stated that they were upgrading their examination process to detect more such violations in the future.

On August 17, after numerous phone calls had failed to elicit any response to my July 8 letter, we filed suit against the Comptroller under the Freedom of Information Act in order to obtain the documents. This suit, which is still in its initial stages, will be the first to involve directly the scope of the 8th exemption.

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[1] See also, letter dated March 1, 1976 from James R. Smith, Comptroller of the Currency, to Senator Joseph R. Biden, Jr., stating that "the number of violations noted in formal reports of examination since 1969 is substantial..."

Later that day, I finally received a response to my July 8 letter, insisting that although I was not seeking information that would invade the privacy of bank customers, the privacy of the banks must be respected.

I submit that the pattern of conduct by the Comptroller's Office that I have just described is not law enforcement at all, but is likely to have the effect of weakening the deterrents to violations of the law by protecting banks from the consequences of their violations. The Consumer Credit Protection Act relies for its enforcement principally upon administrative penalties meted out by the Comptroller's Office and other banking agencies, and private civil remedies invoked by victimized consumers. The protracted negotiations which have occurred (and continue to occur) with banks that have apparently engaged in systematic and substantial violations of the law make a mockery of the administrative deterrent envisaged by Section 108 of the Act. Similarly, the secrecy that shields banks from adverse publicity in the case of substantial violations weakens those deterrents. This is particularly true when the agency, even if successful in its negotiations will not penalize the offending bank but will simply restore it to the position it would have been in had it not violated the law. An enforcement policy like this diminishes the incentive to comply with the law.

Moreover, by failing to inform the victimized consumer of what the agency has found, the Comptroller has extracted the only remaining tooth in the enforcement "bite" that Congress built into the Act. Congress recognized that private enforcement must be the mainstay of the Act, and to that end provided important private remedies in Section 130 of the Act, including statutory minimum and punitive damages, statutory class actions, and statutory reimbursement for attorneys' fees and costs. Yet the Comptroller, by withholding his findings from the public -- and particularly from the borrowers whose rights were violated -- has allowed the statute of limitations on those rights to expire. Certainly, there is no

legal bar to such disclosure; indeed, 12 U.S.C. §481 contemplates this kind of disclosure[1] in precisely this kind of situation. Certainly, the Act provides all sorts of protection to the bank, such as the "bona fide error" defense and the 15-day correction period, and it is at least as feasible for the Comptroller or the bank to inform the public (or at least the victimized borrower) about apparent violations of the truth-in-lending law in a manner that is fair to all parties as it is for the Consumer Product Safety Commission to inform the public about apparently unsafe products. See Section 6(b), Consumer Product Safety Act.

In sum, the Comptroller's Office does not appear to have applied nearly as much imagination to figuring out ways to protect consumers from apparent violations of the Act as it has to figuring out new arguments for protecting apparent violators from the administrative and private remedies established by Congress. This Subcommittee should press the new Comptroller to make public the results of all truth-in-lending compliance surveys and reports in a timely fashion, and in a way that protects the borrowers' confidentiality[2] and is fair to the banks. The regional offices of the bank regulatory agencies should follow the lead of many local consumer groups and conduct regular surveys by telephone and in person, officially and posing as consumers of compliance by local banks. Finally, if these hearings produce evidence that the enforcement efforts of the other bank regulatory agencies are as weak as the Comptroller's appear to be, the Subcommittee should seriously consider urging the banking committees to remove enforcement authority from these agencies and to place it in the Federal Trade Commission. The FTC, of course, has substantial expertise in enforcement of truth-in-lending against non-bank creditors and would be free of the kind of regulatory ambivalence to which the Comptroller's office is so obviously subject.

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[1] In fact, 12 U.S.C. §481 contemplates disclosure, under such circumstances, of the entire examination report, not simply the portion to which the Comptroller objects.

[2] In the Comptroller's survey described above, the banks were encouraged to delete the names of borrowers when filling out the questionnaire.

Mr. ROSENTHAL. Mr. Connell.

STATEMENT OF LAWRENCE CONNELL, JR., BANK COMMISSIONER, STATE OF CONNECTICUT

Mr. CONNELL. Thank you, Mr. Chairman.

My name is Lawrence Connell. I am bank commissioner for the State of Connecticut. I thank you for this invitation to testify before this committee with respect to the truth-in-lending compliance in Connecticut.

As stated earlier, our State is one of the five that have been granted authority by the Board of Governors of the Federal Reserve System to enforce truth-in-lending laws with respect to State-chartered institutions.

Before addressing the specific issues outlined in your letter of August 20, I wish to take a few moments to describe the organization and function of the Connecticut Banking Department.

Within the structure of State government, Connecticut's Banking Department does not differ from most other States. It supervises State-chartered depository institutions such as commercial banks, mutual savings banks, savings and loan associations, and credit unions.

However, the department also has responsibility for the licensing and supervision of broker/dealers and investment advisers and more relevant to this hearing is the department's responsibility in its consumer credit division to license and regulate small loan companies, retail installment lenders, debt adjusters, and debt collection agencies, as well as enforcement of credit laws such as truth in lending, over all State-chartered lenders.

Thus, the Connecticut Banking Department has traditionally had a broader jurisdiction than the Federal agencies in the consumer protection area. The Consumer Credit Division of our department has existed in one form or another for many years as a unit separate and distinct from the Bank Examination Division.

The personnel of the Consumer Credit Division specialized in compliance enforcement and did not concern themselves with issues of solvency and liquidity. Prior to enactment of truth in lending, those that were with the division examined small loan companies for compliance with our older consumer credit laws: basically collection practices, fraudulent advertising, and things of that sort.

Therefore, the personnel in the division were trained to think consumer protection.

We believe specialization has made them more proficient in understanding the complex truth-in-lending law. In fact, until the enactment of the Federal truth-in-lending laws, States alone had regulated consumer credit through their licensing of consumer finance companies.

In seeking to improve the effectiveness of Federal consumer protection laws, it is important to recognize the significant role played by States in this area of public law and to draw upon their strengths.

To date, Federal efforts on consumer protection have been directed toward superimposing responsibility for consumer protection law upon agencies that were not structured to deal with the matter; agencies whose principal responsibility was quite foreign to the concepts of consumer protection.

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The primary obligation of the Board of Governors is monetary policy. The Federal Deposit Insurance Corporation is an insuring agency for depository institutions and the Comptroller of the Currency and the Federal Home Loan Bank Board were charged with the development of their industry as well as the supervision of it.

None of them really had a history of consumer protection responsibilities such as exists in State administration. Because of this, I believe that greater use of local enforcement agencies would result in more effective administration of Federal consumer protection laws.

Now to reply to your specific questions.

First, the description of truth-in-lending examination procedures in Connecticut. Each banking organization within the jurisdiction of the bank commissioner is visited on a regular basis yearly or more often as may be required.

As stated earlier, truth-in-lending inspections are conducted by examiners specially trained for truth-in-lending and consumer credit compliance. Such inspections are the sole responsibility of these examiners.

During the inspection, each category of credit transaction is examined to determine whether the disclosures are in compliance with the regulations and properly reflective of bank practices. Numerical disclosures are recalculated and descriptive disclosures compared with bank practices.

Each transaction noted to be in violation is listed and reviewed with management during a presentation which is conducted at the close of the examination. During that time, bank management is encouraged to discuss any problem areas or questions related to disclosure of credit terms.

A copy of the examination report is forwarded to the bank together with a covering letter which requests a detailed description of the remedial action taken both with respect to individual loans and overall practices.

Also, I might add, a copy of this report is provided the respective Federal agency.

In the case of individual loans, corrective disclosures, new rights of rescission, and monetary adjustments are specified, as appropriate. The bank's response, then, is carefully compared to the examination report to insure the adequacy of remedial action. Followup is conducted as needed.

Examinations of small loan licensees, sales finance licensees, credit unions, and retail creditors are conducted in a similar manner and the department also monitors local newspaper advertising for compliance.

Second, efforts to bring about compliance with the truth-in-lending law. Currently, two methods to accomplish compliance are employed. The first involves our examination and enforcement activities discussed earlier.

After a number of years of experience with the law, we felt that financial institutions should have been familiar with it; therefore, merely informing the creditor repeatedly of errors became insufficient, in my opinion, and constituted an inadequate enforcement effort.

After 7 to 10 years of experience with truth in lending, it was time that the enforcement authority recognized its responsibility to assure consumer redress with respect to violations of law.

While there were no specific provisions for such action in the statute, Connecticut law did provide a general administrative remedy; disclosure of the error to the consumer. However, that action alone might have resulted in a lack of understanding by the consumer of the complex violation and hence no effective redress as the notice might have been thrown away, or extensive class action litigation might result in our already overcrowded courts.

In Connecticut, we chose the middle ground as a first step which was to direct the financial institution to provide redress. In other words, rebates and disclosures directly to the consumer. If the financial institution refused, the department would then disclose the violation directly to the consumer pursuant to its authority under section 36–16 of the Connecticut general statutes and would inform the customer of his or her civil remedies.

So far, no financial institution has refused our request.

The second approach we employ in bringing about greater compliance involves education of industry groups in addition to education of consumer groups. The Federal enforcement thrust with respect to education has been to educate and inform the consumer of the principles of truth-in-lending disclosures.

As the law has become more complex, we found an increasing interest on the part of creditors in Connecticut to have their staff and line personnel educated in the current consumer credit laws in general and truth in lending in particular.

During the past year, the department participated in several seminars sponsored and requested by industry groups for this purpose. In addition, the department participated in a day-long seminar supervised by our Connecticut Consumer Protection Department where both consumer interests and industry personnel were present.

Therefore, in Connecticut, enforcement is not a one-way street. We recognize an obligation to educate creditors on their responsibilities, as well as consumers on their rights.

I should add that we have attended many seminars to educate consumers as a separate matter.

I might also add that, in terms of assuring compliance, over just the last week or two we approved a loan form—probably one of the few times it has been done in the country—to insulate the particular form from being in suit for being in violation of the truth-in-lending law.

That particular form was the Connecticut Student Loan Foundation form. We had found, because of a challenge to the form, that the student loan program was about to break down in Connecticut just before school tuitions had to be paid.

Therefore, for the student loan foundation which had been a participant banker which had been challenged on their form and sued, we reviewed the forms and approved them. I believe this is the first time that that has been done.

I am not sure that could be done at a Federal level with all the forms that could be submitted all over the country to the Federal Reserve Board, but it indicates a particular ability of local jurisdictions to deal with local problems.

No. 3, the merits of noncompliance disclosure. We are considering implementing a noncompliance disclosure policy in Connecticut. I would go farther to say that we intend to.

Traditionally, bank examination results were considered a matter to be kept in the strictest confidence. Knowledge of bank examination results was shared only with the particular bank's management and directorate.

Disclosure or publication of the examination results in the case of national banks under 12 U.S.C. 481 was considered a drastic measure of last resort. Fear of a run on the particular bank was considered too great a risk and costly for the benefits to be derived from publication.

In essence, it was felt that the disclosures would be self-defeating.

In the past, the violations of law that might be disclosed under 12 U.S.C. 481 were such matters as improper practices involving insider dealings, excessive loans or other unsound banking practices.

These are matters that affect the solvency of the bank and often publication would have brought about the very result the regulators were seeking to prevent; namely, failure of the particular bank.

Violations of consumer protection laws are quite another matter. Except in very unusual cases, they would not result in a threat to the safety and soundness of the particular institution.

The limits on class action recoveries, furthermore, offer an additional insulation from excess exposure. I believe the publication of noncompliance could encourage greater enforcement compliance, particularly in areas of the country where enforcement might not have been strong in the past.

Disclosures might also educate the public to the complexity of and the problems with the law. It is overly complex as we have heard so many times, but I am not at all sure that this is fully recognized.

Disclosure of noncompliance might then work to the favor of creditors in promoting more attention to greater understanding of creditor problems. Presently in Connecticut we are determining how and what we would disclose in the nature of noncompliance.

We have no problem with disclosure, per se, of noncompliance, but only at what level of violations the benefits of disclosure would outweigh the unnecessary burden of embarrassment due to an inadvertent or truly minor technical violation.

Quite frankly, insofar as monetary rebates are concerned, we are groping for a particular dollar-triggering amount. Insofar as nonmonetary corrections are concerned, we are looking for a proper error ratio and will be following developments at these hearings for guidance in this area.

I hope these remarks are responsive to your request.

In conclusion, I must again emphasize the importance of bringing consumer credit enforcement as close, geographically, to consumers as possible.

Big business spawned the consumer movement and I am not sure that big government is the proper cure. Rather than requiring an extensive buildup of Federal forces in this effort which would be located in only some 15 or so cities in the country, I would suggest greater incentive to State authorities to seek Federal exemptions.

Moreover, I do not believe we need absolute uniformity of statutory language and would suggest greater flexibility in administering that aspect of truth-in-lending regulation.

Thank you.

Mr. ROSENTHAL. Thank you very much, Mr. Connell, for a thoughtful and enlightening statement.

Mr. Quinn.

STATEMENT OF JOHN E. QUINN, SUPERINTENDENT, DEPARTMENT OF BUSINESS REGULATION, STATE OF MAINE

Mr. QUINN. I wish to thank the chairman for his kind invitation to testify before the subcommittee this morning.

Mr. ROSENTHAL. I just wanted to say for the record, Ms. Greenwald, I was wondering why you are at the bottom of the list until I found out it is made up alphabetically by States.

Mr. DRINAN. Mr. Chairman, I reserve the right to charge discrimination. [Laughter.]

Mr. QUINN. My testimony concerns the experience of the Maine Bureau of Consumer Protection in seeking compliance with our consumer credit protection laws.

When I first joined the newly created bureau in August of 1974, I found a staff which included five field examiners. These five examiners were responsible for examining the State's financial institutions, for compliance with truth in lending under Maine's exemption from the Federal act.

Prior to the creation of our agency, these truth-in-lending examiners had operated under the direction of the State's bureau of banks and banking. Upon reviewing the banking bureau's truth-in-lending examinations for prior years, it became clear that a great many of our financial institutions consider these examinations as nothing more than internal audits provided to the banks at the taxpayers' expense.

It was also evident from the recurrence of cited violations at various banks that these institutions had not been persuaded that substantial compliance with truth in lending was justified on a cost-benefit basis.

We have altered their thinking on that point merely by enforcing the law. Operating on the premise that our banks have had more than 6 years to adjust to the basic principles and requirements of truth-in-lending, I notified our financial institutions that substantive truth-in-lending violations uncovered in future examinations would be treated as violations of the law and not merely errors as had been the practice during the preceding 5-year period.

I should note that my definition of a substantive truth-in-lending violation is somewhat limited. The failure to properly disclose the APR or the total finance charge are the two principal areas which come within this definition.

If the intent of truth in lending is to permit consumers to shop for credit, then these are the tools that are of particular concern to consumers. I believe it would be an unconscionable practice on the part of the State to expose a bank or any creditor, for that matter, to substantial liability for an obvious error or a mere technical violation of truth in lending when, in fact, truth in lending is presently so complicated a maze of regulations and interpretations that creditors in a rural State such as Maine are hard pressed to find legal counsel who can render unequivocal advice on many of the questions arising from the law.

However, the failure or refusal of a bank to properly disclose the annual percentage rate or the total finance charge is beyond excuse after 7 years of truth in lending.

Consequently, whenever this type of violation is uncovered in an examination, we give written notice of the alleged violation to the institution immediately. We then notify the borrower of the alleged violation and of the fact that their right to seek a civil penalty will expire 1 year from the date on which the transaction occurred.

The notice to the borrower further states that the creditor has been requested to refund any overcharge resulting from the alleged violation and that if the creditor should refuse to refund the overcharge the bureau will pursue the matter.

We have been using variations of this approach for the past 1½ years. During that time, we have observed a significant increase in the degree of truth-in-lending compliance by Maine's financial institutions.

A number of banking organizations which had previously been cited by our predecessor, the bureau of banks and banking, for numerous recurring substantive violations are now examined without uncovering a single substantive violation.

Larger banking systems which may have required a 2-week examination just 2 years ago may now be examined in a few days by one examiner. This is due simply to the fact that the banks themselves have finally instituted internal safeguards and review procedures to prevent truth-in-lending violations.

These internal procedures could have and should have been instituted years ago, however, the reluctance of our banking bureau to offend the banking industry or to expose any bank to civil liability at that time led our financial institutions to conclude, reasonably enough, that the State's examination for truth-in-lending compliance was of no particular consequence.

This attitude proved costly to Maine taxpayers who were being required to pay the wages and expenses of the five examiners who were, in effect, providing the banks with a no-cost examination.

Today, as well as for the past year, we have but one field examiner who is responsible for examining our financial institutions and other major creditors for compliance with both truth in lending and Maine's consumer credit code.

The cost of this examiner is now borne by the banks he examines. Today, our truth-in-lending examinations are conducted for the benefit of the credit-purchasing public, rather than as a bureaucratic courtesy extended to financial institutions.

I believe our cost-effective approach could only have been developed within an independent governmental agency, unrestrained by the customary concerns and priorities of an agency primarily responsible for the liquidity status of financial institutions.

As an example, in June of this year our field examiner uncovered 345 substantive truth-in-lending violations in loans granted by a single Maine bank during the preceding 12-month period. In each of these loans, the bank had disclosed only 1 month's finance charge as the total finance charge. Despite the fact that the bank had been warned about such practices in both 1970 and 1972, the bank had returned to the practice and virtually all of its consumer loans had been written in this manner since January 1, 1975.

While our bureau did not conduct a truth-in-lending examination of this bank during 1975, the bank was, however, examined for compliance with truth in lending by the FDIC in November of 1975.

It is evident that the FDIC examiners did not, in fact, review a single consumer loan issued by this bank in 1975. Had they done so, the violations would have been recognized immediately.

Even the most inexperienced examiner should be able to detect an apparent violation when, for example, a 3-year car loan discloses a total finance charge of only $28.

We have experienced similar problems with the Comptroller of the Currency. These problems are rooted in the fact that the Comptroller refuses to allow our State examiners into the national banks to review for compliance with our consumer credit laws.

While the Comptroller is required, in theory, to insure compliance with truth in lending and State consumer protection laws in the national banks in Maine, there is considerable evidence that its responsibility in this area is viewed by that agency as a growing nuisance.

We have pressed the regional administrator on several occasions to explain why the Comptroller's Office continues to refuse to notify Maine consumers when a violation of our consumer credit code is found in a national bank.

The regional administrator has responded in writing that they would notify consumers of violations only as a last resort.

It was also stated that the Comptroller's Office refuses to hold public hearings to determine the extent or existence of violations because such activity might result in a run on a national bank.

Notwithstanding the Comptroller's obvious reluctance to enforce our statutes in the national banks, the Maine Consumer Credit Code requires our agency to notify consumers of all credit code violations uncovered and to hold public hearings in disputed cases.

In line with these requirements, we notify consumers of both the existence of the violation, as well as their rights arising from such violations.

As a further indication of the Comptroller's inability or refusal to enforce consumer protection laws, it should be noted that during our examination in April of 1976 of a State-chartered bank which had recently converted from a national bank charter, our examiners were informed by bank officers that Federal examiners had never examined the bank for compliance with truth in lending prior to the fall of 1975.

This bank had been requested at that time to forward copies of various types of consumer transactions to the regional administrator and subsequently had taken steps to insure compliance with truth in lending to the extent suggested by the Comptroller's Office.

I would note that, prior to our examination, bank officials were unaware of the proper procedures to be followed in as fundamental an operation as rescindable transactions. Our examination also uncovered numerous truth-in-lending and Maine consumer credit code violations which could only have been corrected by an onsite investigation of the bank's consumer credit transactions.

Thus, the Comptroller's inability or refusal to enforce Maine's consumer credit laws on the national banks under its control has resulted

in a discriminatory enforcement situation which continues to operate for the benefit of the national banks.

I believe these examples concerning the FDIC and the Comptroller point up the inherent conflict which arises whenever one agency has the dual responsibility for conducting examinations for compliance with both consumer protection and liquidity requirements.

I believe you will find that the performance of both the FDIC and the Comptroller prove that this dual responsibility is incompatible. I further believe that a cost-effective program of enforcement of consumer credit protection laws can only be accomplished through an independent agency.

Presently the enforcement of such laws by the FDIC and the Comptroller takes place within an atmosphere where the interests of consumers are, at best, of secondary importance.

Thank you.

Mr. ROSENTHAL. Thank you very much, Mr. Quinn, for a thoughtful and, I must say, direct statement.

[The appendix to Mr. Quinn's statement follows:]

Appendix A

JOHN E. QUINN
SUPERINTENDENT

DEPARTMENT OF BUSINESS REGULATION
BUREAU OF CONSUMER PROTECTION
~~XXXXXXXXXXXXX~~ 51 Chapel Street
AUGUSTA, MAINE 04330
(207) 289-3731

This Bureau has notified X Bank that it appears from our recent examination that the creditor has violated the Truth-in-Lending Act in your loan transaction dated _____, , as follows:

1. Failure to disclose the_____.
2. Incorrect disclosure of the_____.

We are advising you that the law provides that a penalty of twice the amount of finance charge, not less than $100 nor more than $1000, must be paid to the consumer if the court agrees that a violation has occured. To secure this penalty you must file suit within one year from the date your loan was obtained.

We have requested the creditor to rebate or credit in your behalf the amount of_____. We assume that your recovery in a court of law would be reduced by the amount of any rebate by the creditor.

You may wish to discuss your rights with a lawyer. We will make available to interested parties the results of our research in this area of the law.

Respectfully,

John E. Quinn
Superintendent

JEQ/nmd

Four seasons for Me.

Appendix B

JOHN E. QUINN
SUPERINTENDENT

DEPARTMENT OF BUSINESS REGULATION
BUREAU OF CONSUMER PROTECTION
XXXXXXXXXXXX 51 Chapel Street
AUGUSTA, MAINE 04330
(207) 289-3731

May 12, 1976

ADVISORY OPINION #1

Re: Incorrect APR Disclosures

Despite the fact that creditors in Maine have been subject to Truth-in-Lending since 1969, the Bureau examiners continue to find consumer credit transactions where the creditor fails to properly disclose either the APR or the amount of the finance charge. This includes a number of cases where the creditor fails to disclose any APR or finance charge. While I agree that certain requirements of Truth-in-Lending appear to place an undue burden upon creditors, meaningful disclosure of the APR and the amount of the finance charge are essential to the protection and education of the credit-consumer.

This letter is to advise you that it shall be Bureau policy that creditors will be limited to imposing a finance charge no greater than the lower of the disclosed APR or the finance charge. In any case where the creditor refuses to voluntarily rebate or charge off against the consumer's obligation the excess charge, the matter will be pursued by the Bureau as an overcharge violation. Creditors will not, however, be required to reduce the amount of the finance charge by more than $1,000 in line with the civil liability limit established under Truth-in-Lending.

The Bureau's notice to consumers will state the Bureau's assumption that any penalty awarded by the courts would be reduced by the amount rebated by the creditor in compliance with this Advisory Opinion.

John E. Quinn
Superintendent
Bureau of Consumer Protection

JEQ/jh

Four seasons for Me.

Mr. ROSENTHAL. Our next witness is Ms. Carol Greenwald, the commissioner of banks for the State of Massachusetts.

Mr. DRINAN. Thank you, Mr. Chairman.

I want to welcome particularly Ms. Carol Greenwald. May I note that in addition to being a very efficient and progressive commissioner, she is the youngest bank commissioner in the history of the United States and she is the second woman State bank commissioner in all of American history.

She was appointed on March 18, 1975, and, prior to that, Ms. Greenwald was the assistant vice president of the Federal Reserve Bank of Boston. She was also the first woman officer of that particular bank.

Ms. Greenwald, I apologize that they have placed you last, but I know that you will be first.

Thank you.

STATEMENT OF CAROL S. GREENWALD, COMMISSIONER OF BANKS, COMMONWEALTH OF MASSACHUSETTS

Ms. GREENWALD. Thank you very much, Representative Drinan, for those very kind words.

I want to thank the chairman of the committee and the entire subcommittee for this opportunity to discuss the enforcement of truth in lending.

Current enforcement by Federal regulatory agencies, as you have heard this morning, is certainly inadequate and it will remain so until the Federal regulatory agencies are prodded by hearings like this into redesigning their entire programs.

It seems to me that two things are essential. One, that monetary penalties be imposed as part of the administrative enforcement of the act. Second, that specially trained examiners be deployed to enforce the act.

Massachusetts is one of the five States that was granted an exemption from Federal enforcement; however, the exemption has one big loophole in it to which we have objected to the Federal Reserve and because of which we have asked the attorney general of our State to file litigation.

When we filed for an exemption, we assumed we were going to get back an exemption that said all creditors in the State would have to observe the stricter State law. Instead, what the Federal Reserve gave us back was an exemption that said all creditors, except the federally chartered creditors, will be under Massachusetts law and enforcement.

Therefore, federally chartered institutions are exempt from compliance with Massachusetts law and from enforcement by Massachusetts agencies.

We have asked the Federal Reserve to reconsider and we have said that they have overstated their authority under the act. I enclose with my statement a copy of the letter we wrote to them. I have just received a response which is not enclosed saying that they do not think so and have asked us to do what we feel is impossible, since we know the answer: To ask the Comptroller if we could please go into his national banks.

We will go through that procedure. When we are denied, we will be in court.

Mr. DRINAN. Ms. Greenwald; is that a response to your August 9 letter?

Ms. GREENWALD. Yes. It just arrived yesterday.

Mr. DRINAN. If it is agreeable with you, we could have that duplicated so that we would have it here.

Ms. GREENWALD. That is agreeable.

Mr. DRINAN. Would the clerk take that and have it reproduced so that we all might see it?

[The letter referred to follows:]

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

OFFICE OF
BANKER AND CONSUMER AFFAIRS

September 9, 1976

Ms. Carol S. Greenwald, Commissioner
Office of the Commissioner of Banks of
The Commonwealth of Massachusetts
State Office Building, Government Center
100 Cambridge Street
Boston, Massachusetts 02202

Dear Ms. Greenwald:

This is in reply to your letter of August 9, inquiring as to the possibility of extending the Commonwealth of Massachusetts' exemption under the Truth in Lending Act to federally chartered institutions such as Federal credit unions, Federal savings and loan associations, and federally chartered banks.

You state in your letter that you are aware of footnote 4 to paragraph (b)(5) of Supplement II to Regulation Z wherein, in your opinion, the Board requires "improbable conditions precedent to the securing of a full exemption." You state that upon the theory that the footnote is not part of the Regulation but merely an administrative guideline which could be subject to change, you are submitting this request. By "improbable conditions precedent" staff presumes that you are referring to the requirement of footnote 4 of Supplement II that in order to extend an exemption to cover federally chartered institutions, a State must provide the Board with evidence of the arrangements for enforcement which it has made with the appropriate Federal agency charged with enforcing the Truth in Lending law.

In staff's view, this requirement is not an "administrative guideline which could be subject to change" in the sense that you suggest. In § 108 of the Truth in Lending Act, Congress delegated authority for enforcement of the Truth in Lending Act for certain federally chartered institutions to the Federal agencies which normally oversee their conduct. The Board is charged by the Act to ascertain that there are adequate provisions for enforcement of the Truth in Lending laws in connection with any grant of the exemption to a State. Staff believes that the requirement of footnote 4 is a reasonable approach to the problem of not only removing a congressionally mandated delegation of authority but also of assuring that adequate provisions for enforcement exist by insuring that the relevant parties to the

matter have worked out a mutually agreeable solution to any problems that may exist.

Therefore, if the Board is to consider your application for an expanded exemption to include federally chartered institutions, we would need the following:

1. A definitive listing of the types of federally chartered institutions to be included in the expanded exemption;

2. Details (including copies of all relevant correspondence) of any arrangement which your office has made for enforcement of the law with the relevant Federal agency having enforcement jurisdiction under § 108 for the enumerated federally chartered institutions; and

3. A statement of any added budget and personnel you have, or plan to have, at your disposal for the purpose of examining the federally chartered institutions should an exemption be granted. If you do not plan to add to your staff and budget for this purpose, we would appreciate a statement as to the percentage of the current staff and budget which would be devoted to this purpose and a statement as to the impact, if any, this would have on your office's enforcement efforts under the present exemption.

Upon receipt of the information requested above, your application will be processed in the normal fashion outlined in Supplement II. If you have any problems with regard to your efforts in this respect, please contact us.

I trust this is responsive to your inquiry.

Sincerely,

Jerauld C. Kluckman
Assistant Director

Ms. GREENWALD. Fine.

The range of authority or scope of activities in the Massachusetts Banking Department are very similar to those in Connecticut. We have recently changed our truth-in-lending enforcement procedure.

Prior to February of this year, the normal safety and soundness examiners examined State-chartered institutions for compliance with truth in lending. Now we have a special team of 20 examiners who do only consumer credit compliance laws.

The impression I gained during my first year in the Massachusetts Department of Banks was that examiners who had been trained to deal with safety and soundness problems do not give high priority to truth in lending and other compliance kinds of reviews such as equal credit.

That is despite the fact that we have very detailed forms. They were giving a very cursory examination.

However, in February of this year we tried an experiment which I think was highly successful. We took truth in lending away from the regular examiners and assigned it to the special division which has been in operation for many years for consumer credit licensees.

We sent you a copy of the summary of our results which were quite startling. For the period February through June of this year, 46 savings banks and 27 commercial banks were examined by this specialized team of examiners.

They noted 2,200 individual violations in the savings banks and 2,800 individual violations in the commercial banks.

In 1975 when these same institutions had been examined by the regular examiners, only 168 and 39 violations, respectively, had been cited.

I am afraid that if you compare the FDIC report with our report, you will see that they are probably just as good because all they do is Xerox our report so that there will be no difference in what they report.

These were not primarily technical violations. Usually everyone goes about saying how complex the truth-in-lending law is, and I understand it is complex, but the violations that we are talking about seem to me to be right at the heart of truth in lending.

They are blank APR's. They are understated APR's. They are usury ceiling violations. These are not technical violations. They are exactly what truth in lending was aimed at.

I do not believe there was a sudden decline in compliance between those 2 years. It is simply that we now have a meaningful examination. I have been convinced by this 5-month experiment that you really do not need people who are going to have their job promotion depend on, and their whole background in, consumer compliance.

A safety and soundness examiner is just not going to be able to consider this as important as finding other kinds of violations. His job promotion, his career advancement is not in this line. I think we might as well recognize that and say we will have special teams where the people will be promoted on how good they are in this area.

The practice of the Massachusetts Banking Department is that when a violation is found—when there is a discrepancy in the dollar amount of a rebate in comparison to the method of rebating disclosed, when there are overcharges or excessive late charges—the examiners require

that checks be disbursed to the customers for the amount of the discrepancy.

If the disclosure statement contains a blank APR or an understatement of the annual percentage rate or a blank space for the dollar amount of the finance charge to be disclosed, it is our policy to have the creditor refund the total finance charge on that particular agreement, subject to the fact that Massachusetts law limits refunds to $1,000.

Therefore, we would have them return any amount up to $1,000 to the customer.

I have included with my statement a copy of the kind of letter which the bank must send to its customers when it sends back the check. It has to explain that it has made an error and disclose the kind of error.

The one that I think we enclosed was a blank APR. It must explain that, therefore, it is refunding the finance charge in its entirety because the rate of interest that was stated was zero to the borrower.

The department also sends—when violations are discovered by examiners—a letter of which I have included a copy as an example which details and cites the relevant statutes; what statute they violated, what we expect them to do; we require that copies of letters sent to customers be forwarded to us as well as the number of the check that was sent to the customer as verification.

We have never had a case where a financial institution has refused to return money or to send a letter to a bank customer. That may be because Massachusetts law not only has civil penalties, but criminal penalties and we would not hesitate to turn over an offending bank to the State attorney general for prosecution.

That is pointed out and there are criminal penalties in our law.

If we found on reexamination that the same violations were occurring, we would not simply stop with saying, "You are going to repay the borrowers," but we would go immediately to the attorney general.

In one case in one bank, which was not in this 5-month period but preceded it, where the violations were so complete that it seemed to us that this was a knowing contempt of the law, we did not go through this procedure. We immediately went to the attorney general and asked for prosecution under the law.

The procedure of simply saying, "You are going to refund money," is when we feel it is not a total pattern of ignoring the law; that you have individuals who are making errors.

It seems to me that a fair and effective enforcement of truth in lending requires that violators be penalized and that those who have been cheated or misinformed be indemnified.

As I said, in Massachusetts we have tried to do this and I think that is the only way that you are going to get any self-enforcement out of this act.

I have serious concerns, however, about opening up the confidential bank examination report in order to use the press as a means of enforcing the act. It seems to me that this misplaces responsibility.

It is clearly the responsibility of a regulatory agency to regulate. It is our job to find violations and to insure that they are corrected.

In my view, it is the job of the press and the legislature to check that we are doing our job.

Regulators have enormous powers to insure compliance. If compliance is not taking place, it is our fault.

It seems to me that this is an opportune time to have hearings such as this and for the press to come forward and say the regulator is doing a lousy job. In most cases, I think that would be most appropriate right now.

I must say that simply preparing testimony for these hearings has been very helpful to me in pinpointing a number of areas where we were not doing the best job and where we could do things better.

I will give you an example. It was questioned what we actually do with a blank APR on a mortgage where the violation could have large consequences for the bank?

We discovered that examiners were treating this differently. I probably would not have known that if we had not gone through this review. Therefore, I feel that these hearings should be considered to be helpful to any regulatory agency. It certainly was for us.

Mr. ROSENTHAL. What are you going to do with the problem of a mortgage?

Ms. GREENWALD. We are still discussing that. We do have a $1,000 limit under the law and our current thinking is that if they left a blank APR, the customer probably did not assume he was getting a mortgage with a zero rate of interest.

Our current thinking, which is not finalized, is that we will take it back to zero percent and charge the bank double for difference between zero percent and whatever they have been charging, and have that rebated up to $1,000; and then have them write to the customer: "This is what we are really charging you. We are charging you 8¾ percent. We did not put it in your mortgage agreement."

"If that is not agreeable to you to have a mortgage at that rate, come in and let us refinance at present market rates without any penalty."

Mr. ROSENTHAL. They would not have any common law right of rescission of the mortgage, would they?

Ms. GREENWALD. I think we are saying the same thing; common law right of rescission. I am saying they can rewrite the mortgage without any penalty.

Mr. ROSENTHAL. There is a slight difference between rewriting and not even paying it.

Ms. GREENWALD. No; I do not think in Massachusetts they would have the right not to repay it. I thought that Maine's law gave you the right not to repay even the principal. Massachusetts' law does not give you the right not to repay the principal.

Mr. ROSENTHAL. This is similar to a usurious loan. You could have rescission of the loan, it could be set aside. I am sure nobody intended to extend it that far but it has that possibility.

We will, without objection, include your total statement in the record.

Ms. GREENWALD. Thank you.

[Ms. Greenwald's prepared statement follows:]

Prepared Statement of Carol S. Greenwald, Commissioner of Banks, Commonwealth of Massachusetts

Representative Rosenthal, I would like to thank you and the Sub-committee for this opportunity to discuss enforcement of Truth-in-Lending statutes. Current enforcement by the federal regulatory agencies is inadequate and will remain so until the bank regulatory agencies are prodded by Congressional reviews like this one to redesign their programs. Federal regulators must impose monetary penalties on banks for failure to comply with the provisions of the Act if they expect there to be any self-enforcement; and they must train and deploy special Truth-in-Lending teams to enforce the Act's provisions.

I. Massachusetts' Truth-in-Lending Examination Procedures

Massachusetts is one of the five states which has been granted an exemption from federal enforcement of truth-in-lending statutes. The Federal Reserve determined under Section 123 of the Act that Massachusetts law has "requirements substantially similar to" those of the Act and "adequate provisions for enforcement." Under Massachusetts law the Commissioner of Banks has the identical regulatory responsibility for truth-in-lending enforcement as the Comptroller does for national banks in other states. This enforcement responsibility is not limited to banks, but also includes all credit lenders.

When Massachusetts applied to the Federal Reserve in 1970 for an exemption under the Act, it was our understanding that our request applied to all creditors. Section 111 of the Consumer Credit Protection Act very specifically states

> "(a) This title does not annul, alter, or effect, or exempt any creditor from complying with, the laws of any State relating to the disclosure of information in connection with credit transactions, except to the extent that those laws are inconsistent with the provisions of this title or regulations thereunder, and then only to the extent of the inconsistency."

When the exemption was granted, however, the Federal Reserve specifically excluded transactions within the Commonwealth in which a federally-chartered institution was a creditor. This exclusion for federally-chartered institutions

conflicts with Congressional intent to ensure that stricter state laws not be pre-empted by federal legislation. I have enclosed a copy of a letter to the Federal Reserve Board requesting that they include these classes of transactions within our exemption.

Our truth-in-lending examination procedures for banks were changed last February. Prior to that time, Massachusetts bank examiners checked 728 state chartered banking institutions for compliance with disclosure laws as an integral part of the regular bank examination procedure. A group of 20 specially trained truth-in-lending examiners was assigned full time to examine 858 consumer credit licensees (collection agencies, loan agencies, automobile installment loan agencies, insurance premium financing and retail installment sales and service) and to visit retail stores, second mortgages companies, pawnbrokers, etc. in all sections of the Commonwealth to ensure compliance with the truth-in-lending statutes.

The impression I gained during my first year in the Massachusetts Department of Banks was that examiners who have been trained to deal with safety and soundness problems do not give a high priority to truth-in-lending enforcement. That, in fact, they were only doing a very cursory examination despite our detailed examinations forms. So in February of this year we took truth-in-lending enforcement in banks away from the regular bank examiners and assigned it to our specialized teams. These examiners join a bank examination which is in process, but only do the compliance sections of the report, and then leave to another assignment.

The results have been startling. In the period February through June of this year, 46 savings bank and 27 commercial banks were examined by the specialized teams of examiners. They noted 2,254 individual violations in these savings banks and 2,855 individual violations at the commercial banks. In 1975, when these same institutions had been examined by the regular examiners, only 168 and 39 violations, respectively, had been cited.

These were not primarily merely technical violations as has usually been alleged, that is, violations because the law is so complicated. The violations involved incorrect disclosure of finance charges and APR's, incorrect computations of rebates, accounts with blank finance charges or blank APR's, incorrect APR's, rate overcharges, and usury ceiling violations. These are not technical violations; these violations are at the heart of truth-in-lending legislation.

I do not believe that there was a sudden decline in compliance; we simply now have meaningful examinations. This experiment has convinced me that meaningful enforcement of compliance regulations will not come from the regular examining staff because they do not see it as the important component of their job. Career advancements for them do not lie in this area. Specialized teams where expertise in compliance will be noted appears to be an effective answer.

When violations are found which reveal a discrepancy in the dollar amount of the rebate in comparison to the method of rebating disclosed or when there are overcharges, excessive late charges, etc., the examiners require that checks be disbursed to the customers for the amount of the discrepancy. If the disclosure statement contains a blank Annual Percentage Rate, an understatement of the Annual Percentage Rate or a blank space where the dollar amount of the Finance Charge must be disclosed, it is the policy of the Massachusetts Banking Department to have the creditor refund the total finance charge on that particular agreement (with the one exception of first mortgage agreements). Overcharge and rebate errors are usually resolved while the examiner is at the bank and checks are disbursed to the respective borrowers. On accounts that have not been resolved at this time, the bank is requested to send a letter to the banking department stating the name, account number and the number of the check that has been sent to the customer. I have enclosed a copy of the type of letter

which the bank must send to its customer.

When the violations are discovered by the examiners, the examiner points out the reason and explains what must be done to correct the situation. The examiner thereupon submits his report to the banking department. A letter is sent to the financial institution or creditor detailing the violations and quoting the appropriate sections of law. In addition, the corrective measures to be taken are repeated and the financial institution or creditor is requested to signify in writing that he understands the problem and to provide certification of compliance. As an example, I have attached a copy of a letter sent to a bank. Frequently, at the request of the financial institution, meetings are held with members of the staff to discuss in greater detail the nature of the violations and the corrective measures that must be undertaken. Upon re-examination, if it is discovered that acknowledged violations continue or that no attempt to correct previously discovered violations has been made, a request for prosecution will be submitted to the office of the Attorney General of the Commonwealth. The personnel assigned to Truth-in-Lending review all previous examinations and compare them with the current examination to assure the correction of the noted violations.

Fair and effective enforcement of truth-in-lending requires that violators of the Act be penalized and that those who have been cheated or misinformed be indemnified. In Massachusetts, we have tried to do this by requiring banks to actually charge only the stated rate of interest to the customer and to repay any overcharges, i.e., if the bank left an APR blank, then the finance charge is zero and any amount paid is refunded to the borrower. There must be a monetary loss to a creditor for violations

if there is to be any self-enforcement of the Act.

I have serious concerns, however, about opening up confidential bank examination reports in order to use the press as a means of enforcing Truth-in-Lending. This seems to misplace responsibility. It is the responsibility of a regulatory agency to regulate. It is our job to find violations of law and to see that they are corrected. If they are not corrected, regulators have enormous powers and resources at their command to insist on compliance, not the least of which is filing with the Attorney General for prosecution. If a regulatory agency is doing its job poorly, then the regulator should be criticized by the press and by the legislative authority. Hearings such as these are very useful in making regulatory agencies review their practices and improve them. Simply preparing testimony for these hearings has been very helpful to the Massachusetts Banking Department in pinpointing areas of needed improvement. But it is not the job of the press to go through the regulatory agencies examination reports to find violations that they will see corrected by the glare of publicity about the bank. It is at least open to question whether it is the regulators job to gather information to provide the public with a basis for civil suits against a bank.

Truth-in-lending is an important issue. And it is certainly true that disclosure in the press of violating banks would lead to greater self-enforcement. Furthermore, I agree that disclosure of truth-in-lending violations does not affect the safety and soundness of the bank; and, therefore, it need not be guarded in the same way as sensitive financial data and analysis about the bank's operations. But I am still concerned about the advisability of piercing that wall of confidentiality around examination reports, even in so good a cause as this one.

Much of the value of bank examination reports would be lost if their confidentiality were violated. It is absolutely essential that an examiner be free to write his true opinions about a bank. He would not be as free with his true opinions if he thought there was the clear possibility of it appearing in the press.

If the Congress wants to employ greater public disclosure of violations, I would recommend that truth-in-lending examinations be separated from the regular bank examination report and that the appropriate statutes and regulations be revised to indicate that periodic (annual) examinations for compliance will be undertaken by bank regulatory agencies as surveys separate from the normal examinations and that the level of compliance found by these surveys and remedial actions taken by the regulatory authority will be made available to the public either in summary or by name of bank. In this way the confidentiality of the bank examination report and process would not be violated.

I think we should move very carefully before we take any steps to undermine the inviolate security of the present examination report, even in so good a cause as this one, especially if other avenues are available, as I think there are. Furthermore, we should really think about the proper role for regulatory authorities and the press. I believe it is the regulator's job, not the media's, to bring about bank compliance and that the agencies have adequate means to do so. It is the legislature's and media's job to ensure that the regulators do their job.

The Commonwealth of Massachusetts
Office of the Commissioner of Banks
State Office Building, Government Center
100 Cambridge Street, Boston 02202

MICHAEL S. DUKAKIS

CAROL S. GREENWALD

August 9, 1976

Board of Governors
Federal Reserve System
Federal Reserve Building
Constitution Avenue
Washington, D. C. 20551

Gentlemen:

The Board of Governors of the Federal Reserve System has granted to the Commonwealth of Massachusetts an exemption under the Federal Truth in Lending Act, effective July 1, 1970.

The exemption applies to all classes of transactions within the Commonwealth, except those in which a Federally-chartered institution, such as a Federal credit union, Federal savings and loan association or national bank--is a creditor. I now seek to include these classes of transactions within our exemption.

I am concerned with an inconsistency of your regulation which requires Massachusetts law to be as strict or stricter than your requirements before you grant an exemption, and upon granting the exemption you limit enforcement in a number of classes of transactions.

Section 111 of the Consumer Credit Protection Act very specifically states "(a) This title does not annul, alter, or affect, or exempt any creditor from complying with, the laws of any State relating to the disclosure of information in connection with credit transactions, except to the extent that those laws are inconsistent with the provisions of this title or regulations thereunder, and then only to the extent of the inconsistency."

I am well aware of Supplement II to Regulation Z, footnote 4 to paragraph (b)(2) wherein you require improbable conditions precedent to the securing of a full exemption. On the theory that the footnote is not part of the regulation but an administrative guideline which could be subject to change, I am submitting this request.

Very truly yours,

Carol S. Greenwald
Commissioner of Banks

CSG:mkf

An examination of the records of this bank by members of the department disclosed violations of the Truth in Lending Law.

The violations noted:

1. Account #449-735 - had no right of rescission. This is in violation of General Laws, Chapter 140C, Section 8(a)(b).*

2. Account #6876 was only given two days rescission period which violates General Laws, Chapter 140C, Section 8(a)(b).*

3. No "Disclosure Statements" were found for the following accounts:

#23-2-8157 210-75 214-75 72-76.

Violations of General Laws, Chapter 140C, Section 7(a)(b)(1)(2)(3)(4)(5)(6)(7).*

4. The following accounts did not have a separately dated and signed request for credit life and accident and health insurance. This is in violation of General Laws, Chapter 140C, Section 3(a)(5)*

Account # - 15-2-8821 20-2-9933 2-2-9798 20-2-9682

16-2-10005 31-2-9880 16-2-9678 27-2-10358

5. Twenty-one (21) loans were found to be in violation of General Laws, Chapter 140C 7(a)(b) because of blank "FINANCE CHARGE" and "Total of Payments" spaces. (See attached list)

March 30, 1976

6. There is no provision for a late charge on the "Money-Mate Revolving Credit" due to a stated rate on the average daily balance.

The opening agreement in paragraph 8 exoludes oredit life when the note is in default. This is not permitted.

The "billing statement" for "Money-Mate" is incorrect. Enclosed is a copy of General Laws, Chapter 255D, Section 27 which will give you the correct information.

This office requests that the finance charges be returned to the borrowers on these accounts. It will be necessary to send a letter to this office verifying that the ~~accounts~~ Amounts have been refunded to the customer.

Please acknowledge this letter.

Very truly yours,

JSH:EOB
cc: Savings Division
Enclosures

MARCH 30, 1976

PASSBOOK LOANS

ACCOUNT #	"FINANCE CHARGE" & "Total of Payments" Blank
9-1-8809	*
16-1-7264	*
27-1-9060	*
21-1-10107	*
28-1-7623	*
23-1-10349	*
12-1-9242	*
9-1-10224	*
9-1-10301	*
10-1-10080	*
2-1-9549	*
24-1-9777	*
27-1-4387	*
21-1-10118	*
21-1-10-175	*
30-1-10364	*
2-1-10053	*
31-1-8685	*
16-1-8292	*

STOCK LOANS

5-1-10373	*
23-1-10411	*

Dear Mr _____

We have recently become aware of an error of omission on the note and disclosure statement which you signed on July 14, 1975. We inadvertantly failed to include the Annual Percentage Rate.

Since this loan has been renewed, we are refunding to you the net amount of interest you have paid.

Please accept the enclosed check with our apologies.

Very truly yours,

WEB/cg

ENC:

67.68

Mr. ROSENTHAL. I want to thank each of you. I must say that all three of you bank commissioners are very, very impressive witnesses. You are obviously doing a superb job.

It is very heartening to this Member to see people who are so committed to performance and accomplishment in this role within the States. I am very impressed.

Congressman Drinan?

Mr. DRINAN. Thank you very much, Mr. Chairman. I would like to echo what the chairman said about the quality of the witnesses and the value of the testimony.

Ms. Greenwald, I wonder if you would comment on this. I have somehow acquired information about two banks in my congressional district. Let me tell you about one.

It has assets of $54.3 million and 600 accounts were looked at. Violations were detected in 207 instances. These included incorrect disclosure on installment loans, incorrect disclosure on auto loans, no disclosure of deferments, incorrect computation of rebates.

Is there any legal or ethical reason why I cannot disclose that information, including the name of the bank?

Ms. GREENWALD. You cannot. I will explain that.

Massachusetts statute says that information gathered as part of the bank examination process can be shown to no one other than the bank or to a court under a court order. I suggest that if greater public disclosure is desired by this committee and the Congress, they should ask—and I understand it is possible under the present act—for Federal agencies to simply take the truth-in-lending part of the exam out of the exam and put it as a separate report.

I have already suggested you should have separate examiners do this part of the exam so this would be very easy to do.

I will note that when we asked the banks to give us mortgage disclosure data, we purposely did not do that as part of the examination report. We could have gotten that information just by going into the banks ourselves, but if we had done that it would have come under the confidentiality of the report.

Therefore, instead we asked for that as a separate piece of information to be filed with the banking department annually. I would suggest the same kind of thing.

Mr. DRINAN. But if I announce to the press this afternoon the condition of this bank in this respect, neither you nor Arthur Burns will seek to put me in jail or sue me or anything like that?

Ms. GREENWALD. The remaining question is, Where did you get that information? I have a feeling you may have gotten it from my office in which case we got it from the examination report and we gave it to this committee under, I thought, confidentiality.

Otherwise, we would have taken out the names of the banks. We gave this information to you by name of bank.

Mr. DRINAN. Do you feel that, at the Federal level, the suggestion made by the gentleman from the Consumers' Union might be good; that we transfer this to the Federal Trade Commission?

Ms. GREENWALD. I am not sure I am really prepared to comment on that. I feel that this is an appropriate part of bank regulation and it just has to be brought home to the Federal bank regulatory agencies that that is true.

One of the things that I feel, without really knowing much about the Federal Trade Commission, is that the Federal regulatory agencies have enormous staffs. They already have the examining staff. They have plenty of people and bodies to put into this.

They are going into the banks every year, anyway. The FTC would never provide the kind of regulation that is possible if the regulatory agencies could ever be convinced that this was important.

Mr. DRINAN. On a different topic, you speak here of the wall of confidentiality, on page 5. You worry about the advisability of piercing that wall.

Is there any procedure in Massachusetts by which the press can get access to the list of all these banks that cheat their consumers?

Ms. GREENWALD. No, there is not at the present time. As I said, the statute is very clear. I could not give it——

Mr. DRINAN. A Freedom of Information Act or anything like that.

Ms. GREENWALD. There is no way they could challenge the statute. This information is gathered as part of the examination report. There is no way they could challenge the statute that says that we can show it only to the bank or to a court.

What can be done—but not by name of bank and I see no reason not to do this and I am saying it as a criticism of us, not of the bank so much—is to report annually in summary form; "We have examined the bank this year. We have found X number of violations which means this much money was rebated to the consumer."

The implication of that is, one, we were not doing our job because there should not be that many violations if we are and that we should be doing a better job, or—which I do not think is true—that there is not enough enforcement authority under the act.

In other words, there is not enough possibility for penalties under the act.

Mr. DRINAN. Could you, by a regulation, so construe the Massachusetts act that the information obtained by this new set of examiners is not within that confidentiality; that this does not go to the security of the bank over the long range or short range; but that this is something that is due to the consumer, the consumer has a right to know this information?

Ms. GREENWALD. I have no doubt in my own mind that this has nothing to do with the safety and soundness of the bank.

Mr. DRINAN. That is right. So why can you not make a regulation saying that you are going to disclose; that you will give this particular bank in my district a month's notice to shape up or you will disclose that the bank has 200 violations out of 600 accounts examined?

Why can you not do that? That is the clear thrust of the Massachusetts statute; truth in lending. The consumer is supposed to have a right. You, by regulation—it seems to me in reading this law—could say that, "Listen, there is no wall of confidentiality around that."

Why could you not even inform the consumer himself? Mr. Jones is cheated by this bank in my district. You could write to him after a month if the bank does not.

Ms. GREENWALD. Oh, but we do; and we insist that the bank write to the consumer himself——

Mr. DRINAN. The bank does, but what about you?

Ms. GREENWALD [continuing]. And with a check saying that, not out of the kindness of their heart, but that they have made an error. Here is what the error was and here is your refund.

Mr. DRINAN. Would you have any estimate of the amount of money that consumers and depositors lose because you people just do not have the time to get around to all the banks?

Ms. GREENWALD. I could not give you an estimate, and we will get around to all the banks.

Mr. DRINAN. I know, but there is a lot of money lost and the statutes of limitation run. Two or three years ago—you do not have time to go into what they did in 1974.

Ms. GREENWALD. No; certainly not.

Mr. DRINAN. So the consumers have no protection right now. Things are going to go on and I am sure that these 200 people who borrow money from a bank in my congressional district will suffer. I have never had any knowledge of this, I learned this last night—and they do not have any knowledge.

Presumably they got a refund, but they do not get a refund on the similar practices that were done in 1972, 1973, 1974, and 1975, or whatever years abuses occurred in the past.

They have no way to recover those sums of which they have been cheated by the banks of Massachusetts for the past 5 years or 10 years and presumably this has gone on. I am sure that your office has rectified it, has diminished it a great deal.

But is there anyway by which the consumer, the depositor under the truth-in-lending law can recover what he was cheated on 3 or 5 years ago?

Ms. GREENWALD. If the note that we found in 1976 had been running for 3 years, then we made the refund for the 3-year period. It would be any note that was earlier than that.

One possibility which we have talked about—as I said, this has been very stimulating to us in the department—is that I am empowered to give a report to the legislature. I could give that report to the legislature by name of bank.

Then it would be available to the public. I would not give it by name of borrower, however. It would be given by name of bank saying, "These are the kinds of violations. This was the dollar sum we found. This is what the effect of the law has been."

The law does say that the legislature has a right to know what we found when we go through the banks. We are considering that.

Mr. DRINAN. Going beyond the banks, could you tell us about the other credit lenders over whom you have jurisdiction?

Ms. GREENWALD. This has been in practice for quite a while. Actually the forms are easier to enforce in small loan companies where the types of loans are very set.

Mr. DRINAN. Is this Household Finance and Beneficial?

Ms. GREENWALD. Right. In the past, before I became commissioner, there was one very large refund of one finance company of $100,000. That is what has shaped up everybody else into realizing that we really meant business.

Mr. DRINAN. But do you have the same power?

Ms. GREENWALD. That was the group of examiners that, for years, just as in Connecticut, had been examining the small loan companies

so their whole background and their whole promotion ladder is based on how well do you protect the consumer.

It was those people about whom we said, "What would they find if they go into a bank?" We found that they found a great deal more than our regular examiners found.

Mr. DRINAN. Really, the banking commissioner should not have jurisdiction over all of them. They are not really banks.

Ms. GREENWALD. They are credit lenders.

Mr. DRINAN. All right; but would it not be wise to transfer that to some agency or at least you, by regulation, say that "I am not going to withhold from the public information as to how Beneficial Finance cheated them this year" or last year or ever?

Why should they have the benefit of these banking laws, and that is what they have. They are under the wall of confidentiality.

Ms. GREENWALD. The banking laws. I guess what I am saying is—you are saying it is beneficial to do it in the press——

Mr. DRINAN. I think it should be revealed the same day. If somebody cheats, when you get out of the supermarket they call the police and something happens. There is no confidentiality if somebody is cheating.

And a bank in my district is cheating the people of this town.

Ms. GREENWALD. Coming back to Household Finance, it is not that it is not corrected the same day. It is corrected. Before the examiner leaves, the checks are written.

Mr. DRINAN. Yes; but it is all very quiet. This should be a matter of public record. If the man who owns the supermarket cheats, he is booked for arrest. Why should bankers not be?

There should be some public revelation that very day. Sure they give restitution. Why should it all be so quiet?

My time has expired. Thank you very much. You are a good witness.

Mr. ROSENTHAL. Mr. Gradison?

Mr. GRADISON. Thank you, Mr. Chairman.

I want to join with my colleagues in complimenting the panel. I am convinced that having these hearings is a good idea and that the testimony this morning will be very helpful as we meet with the Federal regulatory agencies to see what can be done to strengthen the enforcement at that level.

I would like to pursue a slightly different line of questioning because so much of the questioning so far and the comments has been directed at the question of tighter enforcement itself.

I have been struck by several things about the law. First of all, when I was in private business in the investment field I was amazed at what we had to submit to our customers in the way of a truth-in-lending disclosure. It was very complete. To be perfectly frank, I never understood it and I know that our customers did not either.

They wanted to know what the simple interest rate was and, of course, we had told them that for years. In all frankness, the truth-in-lending statement was written by a bunch of lawyers to keep us out of trouble and I am sure it served that purpose.

However, it was so complicated that I honestly say that it would take an advanced degree in mathematics to really understand all the formulas and other information that were built into it.

This is not just my thought. I see Mr. Connell has a phrase on page 6 referring to the law. He says it is overly complex. Mr. Quinn says—

Truth in lending is presently so complicated a maze of regulations and interpretations that creditors in a rural State, such as Maine, are hard pressed to find legal counsel who can render unequivocal advice on the many questions arising from the law.

I also note a statement put into the Congressional Record back in April by Senator Garn on this subject and he refers—I am quoting now:

This shocking situation which came about which Congress, in requiring a minimum punitive damage award of at least $100 under section 130(a)(2) of the truth in lending law where a violation, whether substantial or technical, is found has denied the courts their traditional discretion to exercise commonsense in the disposition of these cases.

He then gives some examples.

He says:

In several cases, creditors have been found guilty of violation of the Truth in Lending Act where they have separately itemized and specifically disclosed the amount of the notary fee required in recording a lien but failed to include the notary fee in the finance charge.

In the Carlin case [*Carlin* v. *Homemakers Finance Service, Inc.*, C.A. No. 75-1045 (E.D. LA. 1975)] the court held the defendant liable for $1,000 punitive damage and attorney's fees for this hyper-technical violation even though it noted that "None of the figures shown on the disclosure statement is inaccurate. Computation of the appropriate figures indicates that plaintiff was correctly informed as to how much money he was borrowing, and how much cash he would receive".

The reason I read all that is to ask all of you this question: Do you have some ideas that you could share, for example, with this subcommittee or our staff with regard to ways to accomplish the needed goal of full disclosure, but simplify the statute so that it is more understandable and, therefore, easier both for protection of the consumer and in the administration of the statute, whether it is by Federal or State agency or an independent agency?

It sounds like we have something that possibly could stand a review with the content of the statute itself based on this testimony. I welcome your thoughts on that question.

Mr. CONNELL. Thank you, Mr. Gradison.

I agree with you that the statute is much too complex. In fact, when I testified on the Senate side on this, I gave a couple of suggestions.

One was that our original Connecticut law was much simpler and not only understandable but easier to comply with. It no longer is such. It is an extensive, detailed statute that has the effect, or will have the effect of making transactions very rigid and limited and it will lose the benefit of a variety of types of credit.

Second, I suggested that credit unions of a certain size be absolutely exempt. Credit unions, which are the fastest growing area of consumer credit, are organizations which are the closest to their members, and are organizations really, except for the very largest, for which truth in lending has no place at all because of the common bond concept.

They are operated, probably 80 percent of them, by part-time people—bookkeepers, shop foremen, that type of thing—and they are just absolutely deluged with this burden of regulation.

I think it is going to be very difficult to simplify an already extensive statute but I think the more we move toward placing the responsibility for enforcement closer to the scene, the less need we are going to have for a detailed, specific statute which is being attempted to be drafted

to deal with situations in our 50 States and things are just different from State to State.

I would suggest an extensive review of that statute if at all, a general-type statute dealing with general fairness rather than detailed disclosure.

In Connecticut, we have several hundred cases in the courts mostly predicated on minor violations.

The other thing I would suggest if things could be moved to a local level is opportunity for approval at least of forms, and an opportunity in the statute where the courts could determine that the violation was not so significant as to make the disclosure fundamentally or substantially unfair.

Then we might be able to reduce a great deal of the litigation that is also quite unfair right now on the other side of things and reduce the size of the loan forms, which now are growing by the year and just do a better job on both sides.

Ms. GREENWALD. I think that if we just reread the law with the notion of what is it that you would want to know if you were filling out a contract it should not be that hard to distinguish between what we can take up in court and what is simply a technical violation.

When we spoke about truth in lending on the Senate side, I think Senator Proxmire simplified it a little bit too far but it was basically in the right direction; a simple statement on a page that said that the annual percentage rate is this.

In Massachusetts, we have after that, "and the total finance charge comes to that amount" because we think people need to know what the dollars and cents are.

Then if you look at some of the violations we have cited that I say are not technical, there are some basic rights that you really do want people to know about like the right of rescission. What is it?

The fact that you did not have to take our credit life insurance when you did this. That should have been on there.

What is it that you would want to know if you were taking out a loan? That is all, I think, we really need to know.

Mr. QUINN. I would agree. I think that what has to happen is that the aura of catch 22 for the creditor must be done away with.

The original intent, as I understand it, was that truth in lending would be available to allow consumers to shop for credit. That never happened.

Truth in lending to the average consumer is meaningless and it continues to be meaningless and, regardless of the enforcement by State or Federal authorities, will continue to be meaningless in the future unless, together with the simplification of the statute—and I think that can be done simply by making the APR and total finance charge and the rescission areas mandatory and with penalties and the other areas within the administrative realm to be handled in that area.

I think together with that simplification the Federal Government has to realize that its obligation is not to simply draw up 1,066 public information letters without even an index; I think its obligation is to inform consumers about how expensive credit can be.

I think that when they—as we have done in Maine and, I think, with a certain degree of success—begin to tell the public that shopping for credit can be a very worthwhile pursuit and that there are a few basic

tools available to the consumer to aid this pursuit, I think that is when truth in lending will begin to find its real place.

I would just point out that I did not really know we were going to get into this area today, but the State of Maine's Bureau of Consumer Protection recently published what we call the "Down Easter's Pocket Credit Guide" which we are making available to our consumers.

The first few pages are just credit shopping tips, but we have 23 pages of tables which relate to automobile loans, mobile home and home repair loans, and a section on home mortgages.

These tables are developed from simple amortization tables. We have taken the work out of amortization tables. We have a variety of interest rates and a variety of amounts of money and a variety of years.

Simply by scanning down the pages the consumer can tell the monthly payment and the total finance charge for these different amounts of money for various percentage rates.

I think once consumers have this sort of device, this tool available to them on a nationwide basis—and we have been very satisfied with the response we have been getting from consumers—they think about this as a tool.

I think consumers are looking for something like this because they know and can be made to know how expensive credit can be when you do not shop for it.

I will be happy to give the two copies I have to the committee.

Mr. GRADISON. Mr. Chairman, I want to thank you for a chance to explore this line of inquiry. As a member of the Banking and Currency Committee, I had a chance this year to review, as all of us did, a related statute—the Real Estate Settlement Procedures Act.

Both laws have a disclosure objective. Truth in lending has reached the point of such complexity that it has been substantially revised by this Congress, I think to the benefit of lenders and borrowers alike.

To me, the key to this is that we want to protect the consumer and that is what we are trying to do, but not every violator of the statute is, to use Father Drinan's phrase, "a cheater."

Not every violator is a cheater because the law is so complicated and because some of the provisions of the law may not really relate to anything of great consequence to either the borrower or the lender but there are highly technical computational issues.

Therefore, I sincerely hope that as the staff reviews this matter and, presumably, prepares a report which may come out of our hearings, in addition to lambasting those regulatory agencies which may well deserve it for poor enforcement, we also take a look at what they are being asked to enforce.

Thank you, Mr. Chairman.

Mr. DRINAN. Would the gentleman yield?

Mr. GRADISON. Of course.

Mr. DRINAN. I read from a report of Massachusetts banks compiled by the distinguished gentlelady from Massachusetts. "In one bank, there are incorrect computations of rebates."

Sometimes, as you say, it is incorrect terminology but there are significant violations that bring about cheating of the people. Therefore, I stand by my word.

Mr. ROSENTHAL. Congressman Moffett?

Mr. MOFFETT. Thank you, Mr. Chairman.

I would like to ask Mr. Schuck about this Comptroller's special survey. If you had obtained the names of the individual national banks contacted in that survey, what would you have done with them?

Mr. SCHUCK. Depending upon the size of the survey, if the survey were such that it were representative of national banks generally, we might have published it. I am not sure we would have. I am not sure we would have used the names of the banks.

However, clearly we are representing, we think, the interests of consumers who themselves may wish to have the names of these banks made available to them so that they can pursue their private remedies under the act.

Therefore, I think the question is not so much what we would have done with them. I do not know until I see the survey. I think the answer may well be that we would have done nothing with them.

Mr. MOFFETT. What action would you recommend this subcommittee take if the Comptroller is refusing to disclose what steps were taken to correct the violation with respect to each bank?

Mr. SCHUCK. It seems to me that one of the problems is that the term "examination report" has been construed very, very broadly; I think far in excess of what the purpose underlying the exemption justifies.

There is, it seems to me, no reason why a regulatory agency ought to be able, simply by calling everything that it obtains from a bank part of an examination report, to protect from public scrutiny those areas, those types of information, which do not relate to safety and soundness but which consumers ought to have.

One thing I think the subcommittee could do would be to press the agencies to restrict, either by regulation or otherwise, the scope of their construction of an "examination report" to those matters which, if disclosed, could seriously compromise the integrity of the banking system or cause a run on the bank or something like that, and not include within it those matters relating to consumer protection which consumers ought to have.

Mr. MOFFETT. Do you have suggestions on what criteria should be used with regard to disclosure of individual banks? I want to ask Commissioner Connell after you answer.

He brought up the fact that, in Connecticut, an attempt is being made to develop criteria.

Mr. SCHUCK. I think that the general criteria are fairly clear although the precise point at which you draw the line is obviously not clear.

One would want to consider the size of the violation, the technical or substantial nature of the violation——

Mr. MOFFETT. The size as defined by the dollar amount?

Mr. SCHUCK. Right, or percentage of the loan, perhaps.

I think the basic concept would be how technical is the violation? How much of a violation of a consumer's substantial rights is involved?

Mr. MOFFETT. Thank you.

Commissioner Connell, would you address yourself to that question also, please?

I understand what you said in your testimony but I wonder if you can elaborate on it.

Mr. CONNELL. Yes, in terms of nonrebate types of violations. We would have to look for a statistically significant level of violation and that is probably between 2½ and 5 percent, maybe somewhere around 2½ to 3 to be statistically significant.

Maybe something close to 5 percent in terms of being clearly a pattern of disregard, but I am looking for suggestions.

Mr. MOFFETT. Of the 20 commercial banks and the 32 savings banks you examined, how many of those would have violations serious enough to get them on the list?

Mr. CONNELL. I discussed this with my staff people that did that, too, in anticipation of a question of this sort.

I would say in terms of the monetary violation the institution obviously that had the $27,000 rebate figure would make it because that is certainly a dollar amount of significance and it probably involved individual violations of about $1,000 each, or $2,000, that were points that were left off of mortgage calculations.

In terms of the others, depending on the size of the bank, I would say there were very few—perhaps half a dozen at most—because we did not really find a 5-percent level in too many instances.

However, I think the important thing in this whole concept is that we have a form of government, I believe anyway, that is based upon openness and that secrecy is an exception and that, just as a matter of principle, the secrecy aspect of regulation should be narrowed.

Therefore, I have supported this thing; not because it would be such a great amount of disclosure in Connecticut, but rather because the principle is important.

Mr. MOFFETT. Isn't it rather obvious, that, at least in terms of the States we are discussing, the Federal examiners are inclined toward more secrecy than the States would be? Is that not clear?

Mr. CONNELL. Yes; I think that is quite clear.

Mr. MOFFETT. What about in the nonexempt States? Do we have any information on that?

Mr. CONNELL. Not that I know of. Our statute in Connecticut is somewhat unique. It requires all matters to be confidential in the examination process except that which the commissioner might disclose in the performance of his duties.

Therefore, I felt it was well within the truth-in-lending concept of regulation for me to be able to disclose, but that is a unique statute.

Mr. MOFFETT. I mentioned the other States, the nonexempt States, only because I wonder about your suggestion that we place greater responsibility on the State banking agencies for compliance.

What evidence do we have that that capability exists?

Mr. CONNELL. That is a good question. To get to the heart of that is to look at the structure of State regulation. It does not matter to me whether the authority rests in the consumer protection department as in Maine, the attorney general's office which I believe is the situation in Oklahoma.

We have already in place in States in one form or another a compliance, a consumer credit compliance unit. They happen, usually, only to deal with small loan company violations.

Those are people that are trained in examining for compliance. If the Federal Government were to provide sufficient incentives for these

States to pick up the truth-in-lending aspect and the other Federal consumer protection statutes and enforce them locally, they would be able to provide, probably even quicker than a Federal agency, people trained in compliance and psychologically attuned toward compliance.

More importantly, they could provide local response to the particular question.

If the authority were transferred to the Federal Trade Commission—and I do not care whether it goes to the Federal Trade Commission or a new consumer protection commission which I would also support—the nearest office of the Federal Trade Commission is New York City and I am not sure many Connecticut consumers would go to New York City.

The nearest Federal banking agency is in Boston. That is 110 miles away. It is 120 miles to New York from Hartford.

It is bad enough that people have to call Hartford from Stamford, but it is worse to have to go to New York. That is my interest, to get it back to the people.

Mr. MOFFETT. However, this also involves the possibility of creating a situation or atmosphere where the special interest forces can be more readily martialed and applied and can basically frustrate or dilute the efforts of the State body.

I am playing devil's advocate here.

Mr. CONNELL. For that reason, I would support Federal oversight, but the hand need not be too heavy in that.

For instance, I know one State out West that has been frustrated in getting an exemption because it wants to include the insurance payment, the mandatory insurance payment, as part of the APR and they cannot get clearance.

There are several other States that actually are enforcing a parallel truth-in-lending statute through the Uniform Consumer Credit Code who have never applied for an exemption mainly because they, I think, feel that the Federal oversight in many ways is too rigid and does not respect the constitutional authority of State government.

Mr. MOFFETT. What is the main difference between the way that you examine and the way that the FDIC examines? You did very well in your testimony in describing how you examine. However, there is a tremendous discrepancy between your findings and theirs.

Would they say that you are just being too stringent or picky?

Mr. CONNELL. They could make that statement but I think really anyone could make that statement. I think that we have these specialists that go into, do one thing, to check compliance. When you are dealing with important matters of solvency in very difficult economic conditions, really the primary effort is to determine the condition of the bank from a solvency standpoint.

I would say that the Federal Deposit Insurance Corporation this last several years has done a magnificent job in dealing with bank failures and near bank failures.

Mr. ROSENTHAL. Including the Franklin National Bank?

Mr. CONNELL. Yes, sir. I think the Franklin National and the U.S. National were magnificent examples of preventing a liquidation and protecting all depositors.

I really believe that the banks were saved.

Mr. ROSENTHAL. Do you include both the FDIC and the Comptroller in that assessment?

Mr. CONNELL. The FDIC in being able to effect a merger.

Both of those cases involved—and I am removed and I do not know the details, obviously—massive fraud and that is a very difficult thing to deal with. Fraud is something that sometimes you cannot detect when there are two sets of books.

Personally, I feel that the Federal banking agencies have done a much better job than has been perceived in these areas.

Mr. MOFFETT. I have just one more question. Let me ask the others if you agree with placing more responsibility in the States. You are State officials so I presume you would agree.

However, please think of the nonexempt States and the fact that the States represented here today are way out in front.

What should our responsibility be in terms of the entire Nation? Commissioner?

Ms. GREENWALD. I am not as enthusiastic as Larry is on that score. I think if the State shows enough interest to apply—part of the problem in applying may be the way the financing is done and Commissioner Connell has usually asked for some Federal financing.

In Massachusetts, if they are going into a bank, the bank is going to pay for the examination at a charge per day for the examiner. The legislature is willing to fund a substantial amount of money for small loan company examinations.

These specialized examiners are not funded by per diem charges in the same way.

However, other States are not willing to allocate the money. If they are not willing to allocate the money and they do not come forward to apply for the exemption, then I do not think we should force it back on them.

I seems to me that the Federal agencies, as I pointed out before, have magnificent staffs. They have large bodies of people. They are in the banks.

What I think the Congress has to do is make clear that you want specialized teams going in.

You asked Commissioner Connell what did he do that the FDIC did not do. I would have been very happy if I could have submitted my data to you, saying, "The 1975 data was FDIC data: the 1976 was Massachusetts data." The fact is that it was both done by our department and the simple change was to switch from the regular examining staff to specialists who had been brought up, in a sense, that consumer compliance is what we are here for.

Then, in truth, the State examiners will be no different than the Federal examiners if they are the same examiners; the people who do safety and soundness.

Mr. MOFFETT. Thank you.

Superintendent Quinn?

Mr. QUINN. I would just say that I do not know that there is a real need that the States do this sort of thing because my experience has been that there are a number of States that are not going to do it.

As you suggest, if they are subject to various banking bureaus around the country—certainly excepting the banking bureaus here

today—I think a number of them are subject to a substantial amount of pressure from the banking industry.

In Maine, our legislature saw the problem over a number of years from this pressure and they saw what happened and they decided to start a separate independent agency which is not concerned with the liquidity question so that when we find substantial violations we make these known to the borrower and to the public.

We feel that the public has a right to know about these things. That is not going to happen within an agency, generally speaking, that has responsibility for the safety and soundness of these banks because, it seems to me, the individual who will be heading that agency in a number of cases will come from the banking industry and will expect someday to return to the banking industry.

That has been the problem in Maine. It is not currently the problem but it has been in the past. That gave rise to our independent agency.

On the Federal level, I think you have to give it to an independent agency if you expect any compliance at least on a cost-effective basis. You have to take it away from these agencies because the people that these agencies presently examine have the same impression that they did in Maine just a couple of years ago; that it is an internal bureaucratic courtesy extended to him and they have no particular reason to comply with it.

Whereas, in an independent agency, you would not have to have that many people. Just as in any agency where there is strict enforcement of consumer rights, you find that most businesses want to comply with truth in lending but, in many areas, they simply have not been given a cost-benefit reason to do so.

An independent agency that would expose these shortcomings would solve that, I believe.

Mr. MOFFETT. Thank you. Commissioner Connell, just one more question.

When do you suppose you would publish a list? How long is it going to take to develop the criteria?

Mr. CONNELL. There is another aspect of this, too, that I think we have to face as we approach this. Once having developed the criteria, then we have to have the violator, and then we have to give the violator sufficient due process opportunity for appeal or discussion of the particular violation and resolve it in that fashion before disclosure.

I think there is a due process element here that we have to be very careful to observe.

However, I would say that we will probably develop a criteria in the next several weeks and then begin applying it to our examinations.

What I do not know is when we are going to hit the triggering level. That could be several months. However, as far as I am concerned, we are on the way to it and the machinery is in place.

I would have to agree that the States vary in their interest. Of course, for that reason, you have to continue Federal oversight. I agree with that.

Mr. MOFFETT. I know from your record that you are very much in favor of that.

Thank you, Commissioner Connell. I would like to say that we have been very proud of your efforts in Connecticut.

Mr. CONNELL. Thank you, sir.

Mr. MOFFETT. Thank you all for testifying. It was an excellent panel, Mr. Chairman.

Mr. ROSENTHAL. Congressman Drinan?

Mr. DRINAN. Thank you, Mr. Chairman.

Commissioner Greenwald, I want to come back to these violations.

It is possible to have a perfect bank. In one instance, 60 accounts were examined—10 percent of the total in the bank—and no violations were discovered at all.

I commend you and those with you here in that we are seeing, obviously, the best in the country. I just hate to think what the worst would be.

Massachusetts is undoubtedly among the best with your colleagues here, but it pains me that the whole thrust of the law was to give the consumers the right to know which banks shape up, so what harm is there in disclosing the report that you have made?

I am not certain that it violates Massachusetts law, but would any harm be done if, in fact, this thing came out praising the good banks and showing that they can, if they put their minds to it, be in total compliance with Massachusetts and Federal law?

What harm would be done?

Ms. GREENWALD. I think there would be several things. First, we only gave you a partial list because we were doing a 5-month experiment period so you are talking about only some of the potential violators but you would be giving the impression that these are the only bad banks that have been discovered.

This would not be accurate because we have not done all of them.

Second, as I said this information was gathered as part of an examination which, on its face and on the cover of the report, says that this will not be disclosed to anyone except the bank or under court order to a court.

As I said, if we were going to do this differently, if we felt that the legislature wanted total disclosure, I would gather the information. I have plenty of power to gather it separately as I did under redlining and as I did under employment practices.

I had no intention of keeping that information confidential.

Mr. DRINAN. I have the Massachusetts law here. What particular section forbids its disclosure?

Ms. GREENWALD. I am talking about the banking statute.

Mr. DRINAN. I have it here, the whole law, the Massachusetts law.

Is it absolutely clear in your mind that this information may not be revealed? Is this the information that is covered within the purview of that particular section?

Ms. GREENWALD. Yes, because it——

Mr. DRINAN. You could reveal it to the legislature.

Ms. GREENWALD. That is right, in an annual report.

Mr. DRINAN. With the names of the banks.

Ms. GREENWALD. Yes.

Mr. DRINAN. And you have not yet had occasion to do that. When will you make the first report on these revelations of this new truth squad that you have?

Ms. GREENWALD. I do not think we have decided whether or not we are going to do that.

Mr. DRINAN. But you have the power to do it.

Ms. GREENWALD. Yes, I have.

Mr. DRINAN. Why would you not do it? Is there any argument for not doing it? I want to know it.

What you are saying now is that you are putting a cloud over all of the banks. People will read your testimony, as I have read it, and say, "My Lord, how many banks are cheating the people?"

It seems to me that those who do not cheat the people have a right to be vindicated. Maybe you should disclose only the good banks. Maybe you should put out a list only of the perfect banks.

Ms. GREENWALD. I guess when it comes down to it, I have reservations but I have not completely decided where I would stand on this issue.

It seems to me that the job that was given to me by the legislature was to insure compliance and that if my report to the legislature is that there is not compliance, then I have to explain to them why there is not compliance.

There are only two answers. One is that I have been doing a bad job, or two, you did not give me enough sanctions so that when I found a violation I could make sure it was corrected and did not happen again.

I think the answer, at this point, is that in the banking department we have not been doing a very good job. I do not think that it is because the law does not give us enough power to do so.

Therefore, I would like to go through at least a year of saying, "Look, we are really going to enforce it." Then when we come back next year it should be enforced.

It has been on the books for 10 years. I thought we had a very proud record. Having gone back to look, we obviously were not enforcing it. We had good forms, but they were not being followed.

Mr. DRINAN. And the banks have gotten themselves a law written by their lobbyists that says if the banks turn out to be bad that you cannot reveal it to anybody except the banks.

Ms. GREENWALD. And to the person who is offended or to the attorney general.

Mr. DRINAN. That is right.

Ms. GREENWALD. We could turn to the attorney general and we would turn——

Mr. DRINAN. Yes, but that is only if it is very grievous, but why should they be protected from having the public know their own criminality? They violate this law.

It is outrageous. Yet the law says, "Oh, no, if the banking commissioner discovers these things, the banking commissioner tells only the bank, 'You have been in violation of the law', and tells no one else."

That certainly is an anomaly. If the guy selling gasoline cheats, it is a public record. Therefore, how can you defend the law?

Would the other commissioners like to comment on this point?

Mr. CONNELL. The Massachusetts statute is quite different than the Connecticut statute.

Mr. DRINAN. Would you like to have the file to reveal all these things after giving warning to the bank and so forth?

Mr. CONNELL. I believe I have that file, sir.

Mr. DRINAN. Do you do it?

Mr. CONNELL. This is what we were discussing. I will be doing it for substantive violations and significant violations.

I do not want to pound them over the head.

Mr. DRINAN. You will start doing that?

Mr. CONNELL. We will be starting to do it.

Mr. DRINAN. Why have you not done it by now, up to date, if you have the files?

Mr. CONNELL. Because we had not thought of it if you want me to be perfectly frank with you, Congressman. We had not thought of it.

When I came in, I began the rebate procedure as the first step.

Mr. DRINAN. But that is all secret.

Mr. CONNELL. Yes, it is; except to the consumer that was injured. The consumer that was injured gets his or her redress.

Mr. DRINAN. But now, starting tomorrow, you are going to put out a press release that the Greenwich National Bank or the Greenwich Local Bank is in violation in one-fifth of the cases; OK? Is that what you are going to do?

Mr. CONNELL. That is correct, sir.

Mr. DRINAN. And you have the power to do that?

Mr. CONNELL. Yes, sir.

Mr. DRINAN. Okay.

Mr. Quinn, yes?

Mr. QUINN. Father Drinan does not remember that I was one of his students.

Mr. DRINAN. Oh, I really do. I tell you, Commissioner, we are so proud of you.

Mr. QUINN. We do have the authority and we utilize it. Our statute does not have a confidentiality clause. That is something I think the banks are going to try to correct this coming legislative session.

Mr. DRINAN. The bankers of Massachusetts just slipped that in there 10 years ago, huh?

Mr. QUINN. No. I think that you will find that just about every banking statute that I have ever seen contains the confidentiality clause. I am not the commissioner of banking. I am a separate agency.

My agency, the Bureau of Consumer Protection, does not have that confidentiality section. We have utilized the power to publicize substantial violations twice within the past 3 months in two separate banks.

I can assure you that if you talk to the bankers in Maine there is an increased willingness on their part to comply with the law. We have seen to that and I think the publication of substantial violations is necessary.

I do not think it is necessary in all cases. I do not think that substantial violations occur all that often in truth in lending.

Mr. DRINAN. But why should this not be a matter of public record? Why should you or anyone have the discretion to say that bank A is not in substantial noncompliance; therefore, we hush this up.

We get a rebate to the customers there but we are not going to put anything out. Why should this not be a matter of public record?

Mr. QUINN. I do not argue with that. I think it should be a matter of public record and back home in Maine it is.

Ms. GREENWALD. You say you differentiate significant and not significant. The question is that you could have 900 violations which looks like a lot of violations, but it is really one technicality on the form.

Mr. DRINAN. Then you have to deal with that in a practical sense.

Ms. GREENWALD. You do not publish everything. It is not simply posting a list of violations which you want to publish. It is a list of significant violations.

Mr. DRINAN. But, commissioner, even when you turn a bad case over to the attorney general, you still cannot talk about it in public. Why should that be?

Ms. GREENWALD. If he prosecutes——

Mr. DRINAN. That is something else, but you cannot.

Why should you and the commissioner's office be under this restriction? We do not treat criminals in society in any other category like we treat the banks.

Ms. GREENWALD. I am saying that, under the statute, if the legislature in Massachusetts wanted us to do this it is easy enough to do. They would simply say, "Do not collect it as part of the examination report which has this confidentiality cover. Collect it under 167, section 7," which says, "You collect any information you want from the banks."

Mr. DRINAN. But you would like to have the power that the commissioner in Connecticut has to put out a statement or just to have it in the public record—not a press release—that banks A, B, and C are in total compliance; banks G, E, and F are not. Would that not be better for you and for the public?

It would fulfill the purpose of the statute which is consumer protection.

Ms. GREENWALD. You feel it facilitates shopping for credit.

Mr. DRINAN. Yes. I would not put my money in a bank that has 207 violations out of 600; a bank in my district, that is. I have some obligation to warn my constituents that they get cheated there, and they are not technical violations.

They are violations in a miscalculation of the mortgage money, the interest.

Ms. GREENWALD. I said it before and I am really saying it truthfully; we found having to prepare for these hearings very provocative in the department. We are exploring the idea of why are we collecting this as far as the examination reports.

As I put in my testimony, it is obvious to me that this has nothing to do with safety and soundness. I could collect the same information under 167 section 7 which says the banking commissioner may ask for any information having to do with financial data in the bank.

If I collect it under that, it is the same as collecting redlining data or employment data. That is all it is and I have already decided it has nothing to do with safety and soundness so I can publish it.

We are exploring whether we should not just do that.

Mr. DRINAN. If you need a statute in the legislature, I am sure it would go through in a day or two if you proposed it.

"Sunshine in Banking," that is a good title for that law.

Thank you very much. Thank you all.

Mr. ROSENTHAL. I would like to thank all of you.

Again, I want to reiterate—and I am sure all my colleagues agree—that all three of you were very, very impressive witnesses. You enlightened us on a subject that is of deep concern.

I am impressed with your performance and your dedication to your responsibilities.

The subcommittee will hear testimony tomorrow morning from the Federal regulatory agents on this same subject.

The subcommittee stands adjourned.

[Whereupon, at 11:45 a.m., the subcommittee adjourned, to reconvene at 10 a.m., Thursday, September 16, 1976.]

FEDERAL BANKING AGENCY ENFORCEMENT OF TRUTH IN LENDING ACT

THURSDAY, SEPTEMBER 16, 1976

HOUSE OF REPRESENTATIVES,
COMMERCE, CONSUMER,
AND MONETARY AFFAIRS SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:12 a.m., in room 2247, Rayburn House Office Building, Hon. Benjamin S. Rosenthal (chairman of the subcommittee) presiding.

Present: Representatives Benjamin S. Rosenthal, Elliott H. Levitas, Garry Brown, and Willis D. Gradison, Jr.

Also present: Peter S. Barash, staff director; Robert H. Dugger, economist; Eleanor M. Vanyo, assistant clerk; and Henry C. Ruempler, minority professional staff, Committee on Government Operations.

Mr. ROSENTHAL. The subcommittee will be in order. We will continue the hearings which were begun yesterday on the Federal enforcement of the Truth in Lending Act.

We have a distinguished panel with us this morning. And if all of you will sit at the table in a panel fashion, we will expedite the business of the subcommittee. We do have a slight problem this morning in that the House went into session at 10 o'clock.

We are honored to have with us this morning Gov. Philip Jackson, a member of the Board of Governors of the Federal Reserve System; Mr. Thomas Taylor, of the Office of the Comptroller of the Currency; and Mr. John Early, of the Federal Deposit Insurance Corporation.

Governor Jackson, we should appreciate it if you would go first.

STATEMENT OF PHILIP JACKSON, MEMBER, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. JACKSON. Good morning, Mr. Chairman.

I welcome the opportunity to testify today before the Subcommittee on Commerce, Consumer, and Monetary Affairs regarding the issue of enforcement of the Truth in Lending Act. The Board appreciates your interest in our enforcement efforts. As you are aware, the Board's staff and members of the subcommittee staff have met on a number of occasions during the last few weeks in preparation for these hearings. I would like to begin by presenting an overview of the Federal Reserve System's previous enforcement effort of truth in lending and its new plan for enforcement of all consumer laws and regulations in the future.

The Federal Reserve System has a dual responsibility under the Truth in Lending Act. First, the Board of Governors has the responsibility to issue regulations to implement the act. To this end, the Board issued regulation Z in 1969. These regulations apply to all persons and entities who regularly extend consumer credit. This task also includes the issuance of numerous amendments and interpretations designed to resolve uncertainties as to the impact of the legislation. The staff has also issued more than 1,100 public position letters regarding the regulation.

While the Board's emphasis has been on rule writing, the Federal Reserve System also has responsibility to enforce the regulation among some 1,050 State-chartered banks that are members of the System. This enforcement responsibility is carried out in the first instance by the 12 Federal Reserve banks, which maintain a force of examining personnel who perform annual examinations of the State member banks.

Compliance by State member banks is monitored through a review of each bank's formal policies and procedures, as well as an examination of the actual practices followed. To illustrate, compliance with truth in lending requirements is verified through review of the bank's policies and procedures in granting direct and indirect consumer loans, the disclosure forms used in connection with those loans, and copies of its advertising. Violations are called to the attention of management with a view toward informing the bank of the law's requirements, obtaining correction, and getting the bank to adopt measures to prevent future occurrences. Violations and the bank management's plan for correction are also noted on a separate page in the examination report—page 5(1)—a sample copy of which is attached. Depending upon the nature and seriousness of the violation, the Federal Reserve bank, in transmitting a copy of the examination report to the bank, may highlight the violation and ask for management's response by a given date as to the action taken to prevent recurrences of the violation. Of course, during any subsequent examination, a determination is made as to whether violations previously cited have been corrected.

Enforcement of the Truth in Lending Act is also carried out through the investigation of consumer complaints concerning the State member banks. During the first half of 1976, the 12 Federal Reserve banks handled 1,131 complaints. Two-thirds of these complaints were investigated by the Reserve banks, as they related to State member banks. The remaining one-third involved creditors not under the System's direct supervision and were forwarded to the appropriate enforcement agency. Where violations of the act have been found, the banks are told to correct them. The Board is made aware of compliance deficiencies at State member banks by the Reserve banks which prepare a quarterly report for the Board summarizing the consumer complaint activity.

The Board and the Federal Reserve banks have taken a number of steps to provide examiners with the training and investigatory tools needed to perform effective truth-in-lending compliance reviews. Before regulation Z became effective—July 1, 1969—members of the Board's staff conducted seminars for examiners at the Federal Reserve banks explaining the requirements of the regulation. This program was repeated in 1973. In addition, the Board prepared an extensive exami-

nation manual and checklist on truth in lending designed to be used by examiners for enforcing regulation Z. In connection with the Fair Credit Billing Act, the Board conducted intensive reviews of the new requirements for both the key examination personnel of the Reserve banks and for persons from the other Federal enforcement agencies. In addition, the Federal Reserve banks have held numerous training sessions for examiners, particularly newly appointed examiners.

Each System examiner attends our assistant examiner and examiner schools which devote time to explaining regulation Z and to training examiners to determine whether State member banks are in compliance with the law. It should be noted that some examiners from State banking departments also attend the System's schools.

Since enactment of the Truth in Lending Act in 1968, the Board has conducted an extensive consumer and creditor educational program relating to the act and regulation Z. Education to assist the consumer in understanding the information and other benefits that the legislation is intended to provide is regarded as very important. Newspaper articles, interviews, and radio appearances continue to be used in our efforts to acquaint the general public with the Truth in Lending Act. Consumer affairs liaison officers and staff at the Federal Reserve banks also conduct frequent meetings and seminars for creditor and consumer groups.

The Board believes that education of creditors is an important device in preventing noncompliance problems. As an example of this educational program, following the passage of the recent fair credit billing amendments to the act and the Board's issuance of implementing amendments to regulation Z, the Board's staff participated in numerous meetings and seminars for the purpose of explaining to creditors the new provisions and requirements. Approximately 6,200 creditors attended these meetings which were held throughout the United States during 1975.

The System has also distributed more than 2 million copies of a pamphlet that contains both the act and regulation Z, as well as questions and answers concerning compliance matters. In addition, more than 3½ million copies of a leaflet explaining the basics of truth in lending to consumers have been distributed, including more than a half-million copies of a Spanish language version. Our staff is developing similar pamphlets on the provisions of the Fair Credit Billing and Equal Credit Opportunity Acts.

Up to this point, the System has been able to utilize the standard bank examination process to determine State-member bank compliance with truth in lending. However, with the growth of consumer credit legislation, we recognize the need for expanding our enforcement efforts. These new consumer-oriented laws, all of which have been enacted during the past 2 years, include the Fair Credit Billing Act, Equal Credit Opportunity Act, Consumer Leasing Act, Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, and the provisions of the Federal Trade Commission Improvement Act relating to unfair and deceptive acts and practices by banks. In recognition of this expansion, the Board has recently approved the following programs:

1. The establishment of a special consumer compliance examination school to be held in Washington, D.C. This school will acquaint exam-

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iners more fully with the requirements of the many consumer credit regulations and the methods for enforcing them. The first school is scheduled to begin September 27, 1976, and additional schools will be scheduled thereafter. I have attached a copy of the agenda to my written statement.

2. Institution of an intensive educational and advisory service in each Federal Reserve bank to assist State member banks in their efforts toward compliance. Each Reserve bank is establishing a team of specialists to assist State member banks in complying with the Board's consumer regulations.

3. Special examination of State member banks will shortly be initiated by bank examiners who have received special training in the consumer credit regulations. These examinations ordinarily would be conducted and scheduled to coincide with the regular commercial examinations, but they may, at times, be scheduled separately. After the first 24 months of the program—December 31, 1978—a thorough evaluation of the program would be conducted.

4. The immediate formation of a special task force, comprised of representatives from the Board and the examining departments of the Federal Reserve banks, to study and promptly report to the Board on the following issues:

(*a*) The implementation of specific examination procedures to carry out consumer regulation compliance.

(*b*) The appropriate sample size needed to measure a bank's compliance with the regulations, for example, the quantity of disclosure forms, finance charge computations, and annual percentage rate calculations to be reviewed.

(*c*) The determination of what steps should be taken when violations are discovered.

(*d*) The expansion of the System's public education program to inform creditors and consumers about the new consumer legislation.

5. The System plans to involve the new Consumer Advisory Council to the fullest extent possible in bringing to its attention truth-in-lending abuses.

The efforts outlined above should result in an even more effective enforcement program. In this connection, the Comptroller of the Currency and the Federal Deposit Insurance Corporation have also been evaluating existing procedures. During the last 3 months, Board staff has been working with the staffs of these two agencies toward developing a uniform approach to examinations of commercial banks. To date, the product of this effort includes development of examination manuals, report pages, training manuals, and interagency instructors for the agencies' consumer regulations training schools.

The subcommittee also requested that the Board present its position on the merits of three issues relating to noncompliance disclosure. These issues are:

1. Notification to individual borrowers that their loan transaction may contain a violation of some section of truth-in-lending regulations;

2. Disclosure through the media of the degree of individual bank noncompliance with truth-in-lending regulations; and

3. The relationship of disclosure to the self-enforcing nature of the Truth in Lending Act.

The Board believes it would be premature to take positions on these issues prior to receipt of the task force report mentioned earlier. These issues involve numerous and difficult considerations which the Board believes need further analysis and experience before being decided. I can assure you, however, that the Board will give these matters their deserved attention, and I would be happy to report to you when the Board finally adopts its positions. However, in order to be as helpful to this subcommittee as possible, I would like to now raise some of our primary concerns with the points you mention.

As the Board has repeatedly indicated both in testimony and reports to the Congress, the majority of violations of the Truth in Lending Act are purely technical in nature. Given the highly complex nature of the regulation, technical violations will occur due to unintentional and inevitable human error. An example of such an error would be the failure to denote a prepaid finance charge as such; although it is disclosed as a finance charge. In most violations, the customer is neither overcharged nor misled. It may be unwarranted to notify borrowers and/or the media that a bank has committed such technical violations. Such a procedure may unduly encourage a proliferation of civil actions to be brought against the offending bank even when only technical violations have occurred.

Much of the present complexity of the act and regulation Z reflects the impact of the civil liability considerations. The threat of severe penalties for relatively minor technical violations has led many creditors to seek greater certainty by requesting official Board amendments and interpretations, which further complicate the regulation. Although private causes of action provide an important enforcement tool for the act, the Board believes that Congress should carefully review the present civil liability provisions to determine whether modification of them might reduce needless litigation and the resulting regulatory complications.

The Board has taken one action and is considering another that may assist in reducing unnecessary litigation. The Board has adopted procedures implementing the provisions of Public Laws 94–222 and 94–239, which provide a defense for creditors relying upon letters issued by duly authorized officials of the Board in connection with regulations B and Z. In addition, the Board is considering the development of standardized truth-in-lending disclosure forms, or portions of forms, on which creditors could rely in complying with the act. It is hoped that these forms will prove especially beneficial to those creditors, such as small retailers, who do not have access to, or cannot afford, specialized legal counsel to design their own forms.

While these measures should reduce the present volume of litigation and help alleviate confusion resulting from the complexity of the act and the regulation, the Board has asked that Congress also study the possibility of limiting the penalty provisions of the statute to violations that actually interfere with the consumer's ability to make meaningful comparisons of credit terms. Only a limited number of terms seem to be genuinely helpful in this regard. These probably include the annual percentage rate, the finance charge, the amount financed, and the repayment schedule. Perhaps only material misstatements of these terms should be brought to the attention of consumers and civil liability only attach where such misstatements have occurred.

This would leave technical violations to be dealt with by administrative remedies. Under present law, a creditor may be penalized for purely technical violations of which the consumer may have been unaware at the time and which in no way entered into the decision to accept or reject the credit terms offered. This situation lends itself to abuse and has overburdened some courts with truth-in-lending litigation.

From 1972 through September 1975, approximately 6,100 suits have been filed in Federal district courts alleging violations of the Truth in Lending Act. This indicates to some degree that the self-enforcement mechanism within the act is being exercised. Many of these suits, however, were the result of technical violations being committed and were not initiated solely on the basis of a violation of the act, but as a part of a bankruptcy or other collection proceeding; thus, it would appear that the thrust of civil actions brought under the act has not been directed to improving those pertinent disclosure items which assist consumers in shopping for credit. The Board shares the concern of Congress that these issues concerning compliance with the Truth in Lending Act and other consumer-oriented regulations must be resolved.

The Board sincerely appreciates the opportunity to come before this committee and to be of assistance to the committee in its oversight responsibilities. I would be more than glad to answer any questions you may have. Thank you Mr. Chairman.

[Attachments to Mr. Jackson's statement follow:]

OSCA SCHOOL FOR EXAMINERS 1ST SESS. CURRICULUM

[Week of Sept. 27, 1976]

Period and time	Monday, Sept. 27	Tuesday, Sept. 28	Wednesday, Sept. 29	Thursday, Sept. 30	Friday, Oct. 1
(1) 9–9:55	Introductory comments: Governor Jackson, Janet Hart.	Fair Credit Billing: Glenn Loney	Municipal Securities Dealer Bank Activities: N. Shupeck.[1]	ECOA Case Study Committee report.	Examiners' Responsibilities; FR Bank Authority; Enforcement Actions Critique.
(2) 10:10–11	Regulation B (present rules): N. Butler.	Fair Credit Practices Examination Procedures: E. Schmelzer and B. Silver.	MSD (continued), Examination Procedures: M. Schoenfeld.	ECOA Case Study (continued), include class discussion.	
(3) 11:05–12	Regulation B (continued) and Fair Credit Reporting: A. Geary.	Regulation B (proposed) and Title VIII: N. Butler.	Regulation U:[1] R. Lacoste	11:05–11:35, Regulation Q: A. Raiken; 11:36–12, Flood Insurance: R. Insley.	Summary, Future Prospects Presentation of Certificates: J. Kluckman.
(4) 1–1:55	Truth in Lending: E. Schmelzer	Regulation C: R. Plows	Fair Credit Practices Case Study Committee Report.	RESPA and Unfair and Deceptive Practices: M. Medvin.	
(5) 2–2:55	TIL (continued): M. Stewart	Panel: ECOA staff. Examination techniques for discovery of discrimination.	FCP Case Study (continued), include class discussion.	Compliance Reporting including: Uniform Compliance Report; Reporting Standards; Commonly Found Violations.	
(6) 3:10–4	Consumer Education: C. Aldrich; Consumer Complaint Procedures: K. Casey.	do	Regulation G:[2] M. Schoenfeld	do	
(7) 4:05–5	Fair Credit Reporting: M. English	Consumer Leasing: L. Barr	Regulations T and X:[2] R. Lacoste	do	

[1] FCP Case Study Group consisting of students not involved in SCR programs will meet in separate classroom.
[2] ECOA Case Study Group consisting of students not involved in SCR programs will meet in separate classroom.

REGULATION Z—TRUTH IN LENDING

1. Were test checks made of the bank's forms and procedures for disclosure? If any irregularities were disclosed, discuss in detail and indicate management's plans for correction.

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2. Has bank established effective procedures to detect defects in disclosures on dealer paper which it proposes to acquire? If not, or if there are defects, discuss in detail and indicate management plans to correct existing procedures or establish new ones.

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3. Were test checks made of the bank's advertising? If any irregularities were disclosed, discuss in detail and indicate proposed plans to prevent future occurrences.

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4. If it appears that rescission rights are not being properly observed on both direct and indirect paper, discuss in detail.

Mr. ROSENTHAL. Thank you very much for a very forthright, knowledgeable, and illuminating statement.

Mr. Taylor, you may proceed.

STATEMENT OF THOMAS W. TAYLOR, ASSOCIATE DEPUTY COMPTROLLER OF THE CURRENCY FOR CONSUMER AFFAIRS; ACCOMPANIED BY JOHN SHOCKEY, DEPUTY CHIEF COUNSEL; AND ROBERTA BOYLAN, ASSISTANT DIRECTOR, LEGAL ADVISORY SERVICES

Mr. TAYLOR. Thank you Mr. Chairman.

I appreciate this opportunity to participate on behalf of the Office of the Comptroller of the Currency in the committee's oversight hearings on Federal enforcement of the Truth in Lending Act.

I am accompanied this morning by John Shockey, Deputy Chief Counsel; and Roberta Boylan, Assistant Director of Legal Advisory Services.

Our Office has a strong commitment to consumer protection as it relates to national banks. As our efforts in this field seem to be misunderstood by some commentators, I welcome the opportunity to set the record straight. Thus, I would like to give the committee a brief background of our performance in enforcing consumer protection laws

before answering directly the specific questions posed in your letter of invitation.

The former Comptroller, James E. Smith, established a special division in our Office devoted to consumer affairs before the Magnuson-Moss warranty—Federal Trade Commission Improvement Act of 1974 mandated that each bank regulatory agency should have such a division. Our Consumer Affairs Division was designed to coordinate the various activities the Office was undertaking to assist the consumer and enforce consumer protection laws, and was fully operative by September 1974.

From our experience since that time, we have ascertained that our examination efforts in enforcing consumer protection laws need to be given a new direction and strengthened. Our regional office in Boston began special consumer examinations as a test project in November 1974. The results of this project convinced us that there was substantially greater noncompliance with consumer credit protection laws than we had previously thought; and. accordingly, we implemented a crash program with the target of examining for consumer protection purposes all national banks within a 12-month period between 1976 and 1977.

As part of this program, a select group of 250 examiners are taking 2 weeks of intensive training in newly designed procedures for examination of national bank compliance with consumer protection laws. The first of these schools started this week.

The special consumer examination covers truth in lending, equal credit opportunity, fair credit reporting, fair credit billing, fair housing, home mortgage disclosure, real estate settlement procedures, advertising, usury, and applicable State laws. We have isolated a number of the provisions of the laws affecting these areas which we think merit more emphasis than others. Therefore, the new examination procedures will focus on those problems which result in a significantly adverse impact on consumers.

Examiners will be prepared to review note forms used by the banks and to take a statistical sampling of their loans to review for conformity with various statutory and regulatory requirements. A bank's lending policies also will be examined along with its policies implementing consumer protection laws. Extensive interviews of lending officers will be conducted to assist us in determining a bank's adherence to its policy standards.

Where violations are detected during the examination, we will use the full authority of our Office to see that these violations are corrected. In those instances where bank customers have been aggrieved, we will use our authority to the fullest to correct the situation. We recently sent a banking circular, a copy of which is attached, to all national banks informing them of our expanded consumer examinations, followup procedures, and formal enforcement actions where necessary.

Our Office is devoting extensive resources to the consumer protection area in the form of processing consumer complaints and conducting examinations. We have found that both consumers and banks have derived benefit from the changes brought about by the new consumer protection laws. Despite the complexity of many of the regulations, increased disclosure and more rigorous, nondiscriminatory

credit guidelines have served to educate the public and to improve relations between banks and their customers.

I would now like to turn to your specific inquiries. You requested information on the special consumer protection examinations we conducted in New England. Since November 1974, we have examined 27 national banks in that region specifically to determine the level of their compliance with State and Federal consumer protection laws. Among the laws given particular attention are truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, usury, and various applicable State laws.

These special consumer examinations are designed to investigate compliance with specific consumer protection laws. Each section of the examination report contains textual material which includes a summary description of the respective topics, a statement of the examination objectives, an explanation of the examination procedures, verification procedures to be used, and an internal control questionnaire. Through the use of target areas and statistical sampling techniques, examiners will be able to confirm the degree of compliance with consumer protection laws. Our objective is that all 4,700 national banks will have received a special consumer examination by November 1977.

You have requested the number and nature of truth-in-lending violations found in the banks which were examined in our New England pilot project. We have attached a chart as an appendix to this statement which explains the types of violations of sections of regulation Z in each examined bank. We have previously submitted to the committee copies of these examination reports.

These violations have been corrected in two ways. Where the violation is purely technical and has not resulted in monetary harm to the customer, the bank has been directed to correct immediately its procedures and forms. If the customer has suffered a significant loss, such as with a miscalculated annual percentage rate, the bank has been directed to reimburse the customer for the excess amount charged.

You have also asked our position on the merits of noncompliance disclosure.

Disclosure of possible violations discovered during examinations would be both impractical and unfair. Examiners are trained to be severe with national banks and, not being lawyers, they occasionally err on interpretation of law. It would thus be misleading to the public and harassing to the banks to impose a disclosure requirement on what is an investigatory finding of a violation of law. Such investigatory findings are not publicized by other Federal agencies prior to institution of court action.

In the matter of disclosure, we are also concerned that our traditional and effective methods of examination not be weakened. Our Office is now able to examine national banks with the cooperation of bankers who know that information in the examination reports will remain confidential. We do not believe that Congress intends that our ability to examine national banks for the purpose of financial soundness and compliance with law be compromised by publicizing information obtained through this cooperation. The fomenting of widespread private litigation by such public disclosure would shut off

our examiners from open communication with bankers by making bank examination an adversary proceeding—a development which would render the examination process much more burdensome to the private sector, much less effective to the regulatory agencies, and injurious to the public welfare.

To date, this Office has been able to achieve correction of abuses in virtually all instances without public proceedings. In view of the peculiar sensitivity of depository institutions to loss of public confidence, we feel that it is important to continue this policy. However, as previously stated to you, we do not foreclose the possibility of public enforcement proceedings in appropriate circumstances.

Finally, your letter requested our position on preemption of Federal consumer protection laws by such State laws and access by State examiners to files of national banks.

Congress has given the Federal Reserve Board broad authority to prescribe regulations in order to carry out the purposes of the Truth in Lending Act. Pursuant to this authority, the Board has said that all transactions in which a federally chartered institution is a creditor constitute a separate class of transactions not subject to exemption from the Federal Truth in Lending Act unless the Board is satisfied that appropriate arrangements have been made with relevant Federal authorities to assure effective enforcement of the requirements of State laws. We think the Board has exercised discretion and prudence in declining to include national banks in the exemptions from Federal consumer protection laws before our Office, which has the primary supervisory and regulatory responsibility for national banks, is assured that enforcement capabilities of the States are suitable.

As for compliance with State laws, our examiners do insist on such compliance when State laws are applicable to national banks. In light of the improved methodology and examiner training in our Office in the consumer protection area, we do not think there is a need for State officials to examine national banks for violations of State laws or to take enforcement action against national banks. In fact, such actions would be a virtually unprecedented breach of the principles underlying the dual banking system and would subject national banks to more kinds of governmental intrusion.

Thank you for permitting me to explain our activities and views in this important area. I shall be happy to answer any questions you might have.

[Attachments to Mr. Taylor's statement follow:]

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

July 9, 1976

Banking Circular No.73

To: Presidents of All National Banks

Subject: Compliance with Consumer Laws -- Expanded Examination Procedures

Within the past few weeks the Comptroller's Office has begun to implement new examination procedures designed to better determine compliance by national banks with a number of statutes enacted to protect consumer interests. Key elements of the new examination effort include:

-- Completely revised and greatly expanded examination questionnaires which will enable the examiner to probe the policies, procedures and practices of national banks for the purpose of assuring full compliance with the requirements of consumer protection statutes and regulations.

-- Expanded training programs which will require a mastery by assistant examiners of the new consumer-oriented examination procedures as a prerequisite to obtaining a commission.

-- Coordinated follow-up procedures which will require our Regional Offices to secure early bank correction of deficient practices.

-- Involvement by the Comptroller's Enforcement and Compliance Division in assisting the Regional Offices in obtaining correction of deficiencies by recalcitrant institutions -- through formal procedures under the Financial Institutions Supervisory Act when necessary.

The new examination procedures initially will concentrate upon those problem areas in which noncompliance may have a significantly adverse impact upon consumers. When it is discovered that customers have been harmed by noncompliance, we are confident that national

banks will act in a manner consistent with the public's faith and trust in them. It is expected that such actions will include taking whatever steps are deemed appropriate to remedy conditions resulting from violations of law, including restitution.

The experience of our examination force suggests that many deficient practices could be avoided simply by banks scrutinizing their own compliance more carefully. Indeed, inadvertent violations are frequently caused by a failure of bank officers and counsel to match an understanding of the law with an awareness of the details of the bank's procedures and practices. Because even highly technical violations of a number of these statutes can result in substantial punitive damages and protracted litigation, bank counsel, in particular, must be alert to deviations from statutory and regulatory requirements. A list of the statutes which should be reviewed by bank counsel is attached to this Circular.

In sum, the Comptroller's Office intends to assure whatever degree of examiner scrutiny may be necessary to obtain conscientious bank compliance with the requirements of these statutes. I encourage each of you to anticipate this heightened examiner inquiry by conducting your own thorough in-house reviews of practices and procedures in this complex, rapidly changing area.

Very truly yours,

James E. Smith

James E. Smith
Comptroller of the Currency

Attachment

List of Statutes - Attachments

Banking Circular No. 73

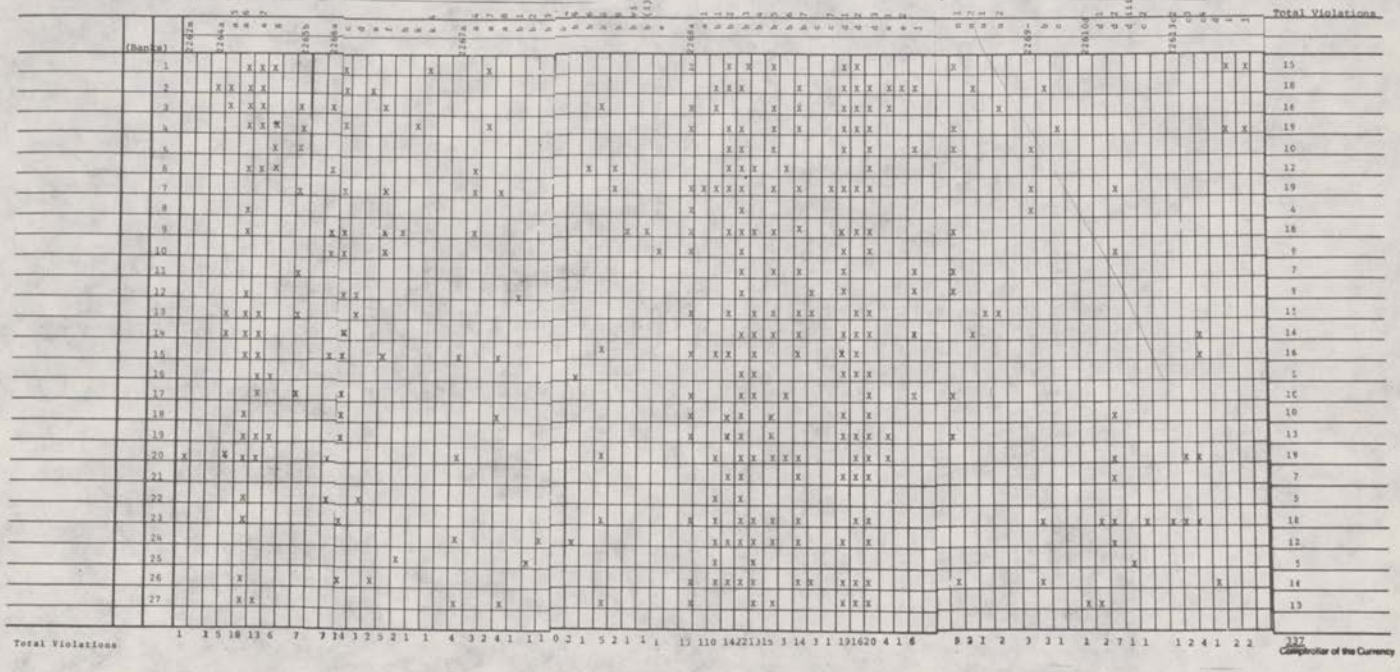
TITLE	CITATION
CONSUMER CREDIT PROTECTION ACT:	
Truth in Lending Act	15 U.S.C. 1601 Regulation Z (12 CFR 226)
Fair Credit Billing Act	15 U.S.C. 1666 Regulation Z (12 CFR 226)
*Consumer Leasing Act of 1976	15 U.S.C. 1667 Regulation Z (12 CFR 226)
Fair Credit Reporting Act	15 U.S.C. 1681
Equal Credit Opportunity Act	15 U.S.C. 1691 Regulation B (12 CFR 202)
*Equal Credit Opportunity Act Amendments of 1976	15 U.S.C. 1691 Regulation B (12 CFR 202)
Home Mortgage Disclosure Act	12 U.S.C. 2801 Regulation C (12 CFR 203)
Real Estate Settlement Procedures Act	12 U.S.C. 2601 Regulation X (24 CFR 3500)
Fair Housing Act	42 U.S.C. 3605
Advertising - Deposits	12 U.S.C. 371 b Regulation Q (12 CFR 217.6)
Interest - Usury	12 U.S.C. 85 & 86
Applicable State Laws	

*Effective March 23, 1977

TYPES OF VIOLATIONS OF REGULATION Z APPENDIX to STATEMENT, SEPTEMBER 16, 1976

(X denotes violations of the section)

Regulation Z Sections Violation



ATTACHMENT

*Regulation Z amended 9/30/74

Types of Violations of Regulation Z
Narrative to Appendix to Statement
September 16, 1976

*226.2m	"Creditor" FRB Staff Letter 359 classifies the status of a bank acting as a trustee, as a creditor. Therefore, all required disclosures must be made.
226.4	Determination of Finance Charge
226.4(a)	Requires the amount of the finance charge in connection with any transactions should be determined as the sums of all charges, payable directly or indirectly by the customer.
226.4(a)(5)	Require inclusion of credit life and accident and health insurance charges in the finance charge unless steps outlined in 226.4(a)(5)(i) and (ii) are met.
226.4(a)(6)	Require inclusion of the cost of required property insurance in the total finance charge unless it is disclosed to the borrower that he may select an insurer of his own choice.
226.4(a)(7)	Loan guaranty fee on finance charges and therefore are required to be disclosed as part of the annual percentage rate.
226.4(g)	Requires that, for purposes of disclosing the finance charge, demand obligations are deemed to have a maturity of one-half year.
226.5	Determination of Annual Percentage Rate
226.5(b)	Requires that the annual percentage rate which, when rounded, must be disclosed at least to the nearest 1/4 of a percent.
226.6	General Disclosure Requirements
226.6(a)	Requires disclosures to be made clearly, conspicuously, and in meaningful sequence with prescribed terminology. The terms "annual percentage rate" and "finance charge must be more conspicuous than other required disclosures".
226.6(c)	Requires disclosures must not be misleading or confusing.
226.6(d)	Requires disclosure of the identity of all creditors when there are multiple creditors.
226.6(e)	Requires that when there are multiple customers, disclosure must be made only to one.
226.6(f)	Requires that disclosures basis on an estimate date of maturity of the interim loan, must be disclosed as estimates and clearly identified as such.

226.6(h)	Provides that overstatement of an annual percentage rate is not a violation only when the overstatement occurs inadvertently and is not a circumvention or evasion of Regulation Z.
226.6(k)	Authorizes use of existing forms until April 30, 1976, however the forms must be supplemented as necessary to insure required disclosures are made clearly and conspicuously.
226.6(k)(4)	Creditors need not supplement or alter forms prior to April 30, 1976 where inconsistent State law provisions with specified sections of Regulation Z and the Act.
226.7	Open End Credit Accounts - Specific Disclousres
226.7(a)	Requires specific terminology in disclosures before first transaction is made on any open end credit account.
226.7(a)(4)	Requires disclosure of periodic rates and annual percentage rates in agreements opening new accounts.
226.7(a)(7)	Requires disclosure of conditions under which the creditor may retain or acquire security interest and description of interest.
226.7(a)(8)	Requires disclosure of minimum periodic payment required.
226.7(b)	Periodic statements required with the following specific terminology to be disclosed
*226.7(b)(1)	Requires the outstanding balance in the account at the beginning of the billing cycle, using the term "previous balance".
*226.7(b)(2)	Requires the brief identification of any goods and services purchased or other extenion of credit unless furnished previously and the amount and date of transaction.
*226.7(b)(3)	Requires a brief identification of "credits" or "payments".
*226.7(b)(4)	Requires the disclosure of "finance charge".
*226.7(b)(5)	Requires the disclosure of the periodic rate and its application to period balances.
*226.7(b)(6)	Requires disclose of an "annual percentage rate".
*226.7(b)(8)	Requires disclosure of the balance on which the finance charge is computed and a statement of how that balance was computed.
*226.7(b)(9)	Requires disclosure of the "new balance" and closing date.
226.7(b)(1)(vi)	Same as 226.7(a)(4)
226.7(b)(1)(ix)	Same as 226.7(b)(9)

*226.7(e)	Requires at least 15 days notice prior to any billing period in which terms previously disclosed are changed.
226.8	Credit Other than Open End - Specific Disclosures
226.8(a)	Requires disclosure of commitment letter and the identity of creditor.
226.8(a)(1)	Requires note evidencing the obligation on the same side and above or adjacent to the customers signature.
226.8(b)(1)	Requires disclosure of the date of accrual of the finance charge.
226.8(b)(2)	Requires the finance charge be expressed as annual percentage rate.
226.8(b)(3)	Requires the number amount and due date of payments scheduled to repay indebtedness.
226.8(b)(4)	Requires full disclosure of all charges payable in the event of default or delinquency.
226.8(b)(5)	Requires disclosure of any security interest taken in conjunction with an extension of consumer credit.
226.8(b)(6)	No disclosure is required if a note stipulates that it may be prepaid without penalty.
226.8(b)(7)	Requires disclosure of a method of rebating unearned finance charges, or if no rebate is made, this fact must be disclosed.
226.8(c)	Requires additional disclosure for credit sales than in sale or nonsale credit with specific terminology.
226.8(c)(7)	Requires disclosure of the "amount financed".
226.8(d)(1)	Requires the use of the term "amount financed".
226.8(d)(2)	Requires full disclosure of loan terms including prepaid finance charges using specific terminology.
226.8(d)(3)	Requires disclosure of the finance charge with a description of each amount included.
226.8(e)(1)	Requires a loan guarantee fee is a prepaid finance charge and must be excluded from the proceeds of the loan in disclosing the amount financed under 226.8(d)(1).
226.8(e)(2)	Requires that any deposit balance required must be disclosed.
226.8(j)	Requires new disclosures upon refinancing of a loan.

*226.8(n)(1) Requires disclosure of the annual percentage rate in periodic statements.

*226.8(n)(2) Requires disclosure of the date by which the payment must be made to avoid late charges.

226.8(u)(1) Should read 226.8(n)(1)

226.8(u)(2) Should read 226.8(n)(2)

226.9 Right to Rescind Certain Transactions

Requires creditors who take a nonpurchase money security interest in a borrower's principal residence to furnish each such customer with two copies of Notice of the Borrower's Right to Rescind.

226.9(b) Requires the giving of two copies of due notice of customers right to rescind where that right exists.

226.9(c) Funds should not be disbursed until expiration of right to rescind.

226.10 Advertising Credit Terms

226.10(d) Requires specific terms for the advertising of credit other than open end.

226.10(d)(1) Prohibits statement of rates other than the annual percentage rate.

226.10(d)(2) Requires full disclosure of loan terms in advertising

226.10(d)(2)(iii) Requires the number, amount and due dates or period of payments scheduled to repay the indebtness if the credit is extended.

226.10(c) Requires specific disclosures in the advertising of open end credit

226.13 Credit Cards - Issurance and Liability

*226.13(c)(2) Requires that liability is limited $50 or less.

*226.13(c)(3) Requires adequate notice of liability on card.

*226.13(c)(4) Requires a prepaid mailer.

*226.13(d) Requires the card issuer to provide a method whereby the user of a card can be identified.

226.13(i) Provides for the rights of cardholder to assert claims or defenses against card issuer.

226.13(j) Provides for the prohibition of offsets by the card issuer.

Mr. ROSENTHAL. Thank you very much, Mr. Taylor.
You may proceed, Mr. Early.

STATEMENT OF JOHN EARLY, FEDERAL DEPOSIT INSURANCE CORPORATION; ACCOMPANIED BY THOMAS O'NELL, DIRECTOR, OFFICE OF BANK CUSTOMER AFFAIRS; AND REFORD WEDEL, GENERAL COUNSEL

Mr. EARLY. Good morning, Mr. Chairman. With me this morning is Mr. Tom O'Nell, Director of our Office of Bank Customer Affairs at the FDIC; and Mr. Reford Wedel, from our General Counsel's Office.

The objectives of the FDIC's examination and supervisory efforts have been and are to promote safe and sound banking conditions and to insure that banking practices are in compliance with all applicable laws. Determining compliance with truth in lending is an integral part of this total supervisory function.

FDIC field examiners have been checking banks within our enforcement jurisdiction for compliance with the Truth in Lending Act and its implementing regulation Z since July 1, 1969, when the law became effective. During the first few years of enforcement of that law, discovered violations were reported by means of a separate letter-report to the bank's board of directors. Each of our regional offices sent a letter to the board of directors of a bank and set forth the violations.

On September 9, 1974, field examiners began using a truth-in-lending compliance report form to identify types of violations and to describe a bank's noncompliance with truth in lending. A copy of that form has been submitted. The form sets out several key questions with respect to compliance with regulation Z and answers are based upon the results of a selected sampling, upon statements made by bank's management regarding procedures and policies, and upon observations by the examiner. In the case of negative answers, details are provided and management's promised remedial action noted.

Checks for compliance with truth in lending are performed during the course of regular commercial examinations except in the States of Georgia, Iowa, and Washington. In those States, we are engaged in an experimental withdrawal program. We are experimenting on withdrawing from our traditional safety and soundness examination and relying on State reports. So in those States, we continue to go in and do the compliance exams separately.

A review for truth-in-lending compliance involves a sampling of the disclosures made in connection with various types of consumer credit transactions, both open end and closed end, the practices used by the bank in according customers their rights of rescission, the bank's advertising for consumer credit, and its practices in issuing credit cards and orally disclosing annual rates. This review for truth-in-lending compliance has been recently expanded to include the fair credit billing amendments to regulation Z.

Checking for compliance now involves a judgmental sampling of the pertinent transactions or records. In determining the size and scope of the sample, the examiner considers the composition, volume, and source of the consumer credit portfolios held by the individual bank under examination. If the sample reveals numerous or serious

violations, the sample size is increased and a more thorough review is conducted.

The FDIC has been testing the feasibility of using statistical sampling techniques in determining a bank's compliance with truth in lending. We have been running this test in Wisconsin. This program, which has been thoroughly pilot tested, is being put into use in two regions immediately, in Minneapolis and New England, in order that we will be able to determine how it can be improved operationally. On the basis of current findings, we believe an effective statistical sampling procedure can be incorporated into the compliance examination process nationwide.

Based on the findings of the compliance examination, the examiner meets with bank management to discuss any violations or deficiencies and seeks changes in the bank's procedures to avoid future violations of the type discovered. The completed truth-in-lending or fair credit billing compliance report is submitted to the regional office for review and followup action. In order to obtain compliance with truth in lending, regional office followup activity can include additional correspondence with the bank, conferences with bank management, or a reexamination of the bank. If it appears that compliance cannot be voluntarily obtained, a formal proceeding is instituted under section 8 of the FDI Act, which is our cease and desist section.

The present procedures utilized by the FDIC to obtain compliance with truth in lending do not include notification to the bank customers of any deficiencies or violations discovered in their credit transactions with the bank. This matter is now being reviewed.

Violations of truth in lending are also brought to our attention through the complaint or inquiry process. Again, as with violations discovered through the examination process, the bank is required to take whatever action is necessary to avoid future infractions. In addition—and as opposed to our present practice where violations are discovered during the examination process—the factual and legal issues involved in the complaint and the availability of any private civil remedies are pointed out to the consumer. This is in the complaint process, but is not so in the examination process.

The FDIC is in the process of reviewing its entire consumer protection role. This review is focusing in particular on the nature of our enforcement responsibilities under the various recently enacted consumer protection laws, any possible conflicts of interest with traditional safety and soundness responsibilities that may be involved, and the types of remedial enforcement actions authorized and contemplated by these laws. A study group composed of senior staff members from the various divisions and offices within the FDIC is conducting this review. Their policy recommendations to the Board of the FDIC will deal specifically with the issues of public disclosure through the media of individual bank noncompliance with truth-in-lending regulations, notification to borrowers that their loan transactions have involved violations of truth in lending and what role, if any, the Corporation should play in rectifying violations and indemnifying borrowers.

The FDIC has taken a number of positive steps to meet its consumer protection responsibilities. First and foremost, of course, is the substantial time and efforts our examiners spend checking individual banks for compliance. Last year, I think we visited and ex-

amined over 7,000 banks. In the past year and one-half, our examiners devoted over 48,000 man-hours to examining for truth-in-lending compliance.

Our examiners have received considerable instruction in consumer protection requirements and enforcement, and our training area in this area is being expanded substantially. Our school for senior assistant examiners, which is over in Rosslyn, will provide 35 hours of training in Federal consumer protection laws, including the preparation of the FDIC compliance report.

One session will be held in November of this year; and, approximately nine sessions will be held in 1977. There will probably be about 30 examiners at each session, or almost 300 examiners over the course of a year.

In April of 1975, we established an Office of Bank Customer Affairs to receive and act on consumer complaints and represent the consumer's interest and viewpoint on matters coming before our board of directors. This is headed by Mr. Thomas O'Neil. Since its establishment, this office has processed over 300 complaints and is in the process of adding additional staff to better enable it to discharge its responsibilities.

Over the past several years, we have staffed many of our 14 regional offices with regional counsels who are able to interpret the frequently complex provisions of consumer protection laws and advise and assist our regional office staffs and their respective examiners in discharging their compliance examination and followup enforcement responsibilities. In addition, our regional counsels have been of assistance to numerous bank customers on many, many occasions.

With respect to the comparative results of our compliance examinations in Connecticut versus the results obtained by the State examiners, we believe the State of Connecticut and the FDIC have taken a somewhat different approach in enforcing Connecticut's truth-in-lending law.

FDIC examiners take a representative sample of the various consumer credit transactions in order to determine compliance with truth in lending. If violations are discovered, the sample size is increased. In reporting violations, our examiners do not list all the violations which they may find in a bank nor do they indicate any monetary adjustment as a result of these violations. Instead, our examiners list representative examples of various types of violations discovered.

In order to facilitate followup procedures by the regional offices, our examiners have been instructed to provide an estimate of the number of consumer extensions of credit in violation as a percentage of the total consumer credit held by the bank; or, in lieu of this percentage, to provide an assessment of the degree of noncompliance by the bank in the area of truth in lending. Truth-in-lending violations discovered by our examiners are followed up by our regional offices to insure that the banks involved are taking the necessary steps to avoid future truth-in-lending violations. This supervisory approach has been successful in obtaining required corrections in almost all cases. When these efforts are found to be inadequate, the FDIC can require correction through its section 8 proceedings.

It is our understanding that the Connecticut Banking Department has a separate department of examiners who are trained as specialists

in compliance matters and who have no responsibilities for examining for safety and soundness of the institutions they examine.

The FDIC conducted separate compliance examinations in selected States on an experimental basis in 1974 using the new compliance report form. More violations were disclosed. Later when the new form was used in all States, in conjunction with our commercial examinations, a similar increase in discovered violations was noted. It was concluded that the improved results were due to the new form and the special emphasis it gave to this area of our examination responsibilities. The increasing volume and complexity of consumer protection law may indeed require specialization; and this is under consideration.

In examining for truth-in-lending compliance, it is apparently the practice of the Connecticut State examiners to list separately all the violations they find regardless of the number of times a particular violation is repeated in different loan transactions. We believe this approach of listing all violations discovered accounts for a significant part of the disparity in reported findings of truth in lending violations by the FDIC and the State of Connecticut.

It appears too that some of the violations discovered and listed by the Connecticut examiners represent deficiencies of a very technical nature, such as a dollar's difference in the finance charge disclosed which does not significantly affect the annual percentage rate. While this represents a very thorough method of examination for truth-in-lending compliance, we believe our examiners have placed more emphasis on determining whether a bank is complying with the basic requirements of the truth in lending regulations.

The State of Connecticut is one of the five States which has received an exemption by the Federal Reserve Board of Governors from certain requirements of the Federal Truth in Lending Act because the requirements of the State law are equal to or exceed the Federal law and the provisions for enforcement is adequate. In the exempted States, the States are the primary supervisors of the State truth-in-lending laws. Nevertheless, because of the importance of truth in lending to consumers, and the interest of the FDIC in banks' complying with all laws, the corporation has continued to examine for truth-in-lending violations and assist these States in this important function. This has been a cooperative effort on our part without any intention to compete or usurp the States' responsibilities.

We believe the results of these hearings will be helpful to us, Mr. Chairman. We will be pleased to answer any questions.

[Attachment to Mr. Early's statement follows:]

_____Region _____Compliance Examination Certificate Number_____

_____

_____ _____ _____

Examiner-In-Charge_____ Close of Business_____

COMPLIANCE REPORTS

THESE REPORTS ARE STRICTLY CONFIDENTIAL

These reports have been made by an examiner appointed by the Board of Directors of the Federal Deposit Insurance Corporation for use in the supervision of the bank. The information contained in these reports is based upon the books and records of the bank, upon statements made to the Examiner by directors, officers, and employees, and upon information obtained from other sources believed to be reliable.

It is recommended that each director, in accordance with his responsibilities both to depositors and to shareholders, thoroughly review these reports. In making these reviews, it should be kept in mind that the compliance reports do not encompass any audit tests or procedures. Therefore, these reports should not be considered audit reports.

The copies of these reports are the property of the Federal Deposit Insurance Corporation and are furnished to the bank for its confidential use. Under no circumstances shall the bank, or any of its directors, officers, or employees disclose or make public in any manner these reports or any portion thereof. If a subpoena or other legal process is received calling for production of any specific report or all reports, the Regional Office of the Federal Deposit Insurance Corporation should be notified immediately. The attorney at whose instance the process was issued and, if necessary, the court which issued it, should be advised of these restrictions and referred to Part 309 of the Federal Deposit Insurance Corporation Rules and Regulations.

Robert E. Barnett, Chairman
Board of Directors

FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC 6500/60 (4-76)

FEDERAL DEPOSIT INSURANCE CORPORATION	EXAM. *(Close of business)*	NUMBER
TRUTH IN LENDING – FAIR CREDIT BILLING	NO. OF OFFICES	TOTAL ASSETS
NAME OF BANK	EXAMINER-IN-CHARGE	
CITY / COUNTY	STATE	

NOTE: Answers to the following questions are based upon the results of a selected sampling, upon statements made by bank's management regarding procedures and policies, and upon observations by the examiner. In the case of negative answers, details are provided and management's promised remedial action noted.

ITEM	YES	NO
1. Is the bank correctly determining finance charges and properly handling excludable charges? (Section 226.4)		
2. Is the bank properly computing annual percentage rates? (Section 226.5)		
3. If the bank extends open-end credit or is a card issuer:		
(a) Does the bank provide correct disclosures before the first transaction is made on the new account? (Section 226.7(a))		
(b) Does the bank provide correct disclosures on periodic billing statements? (Section 226.7(b)(1))		
(c) If a finance charge may be imposed after a time period for payment is provided, does the bank mail or deliver billing statements within the time limits specified in Section 226.7(b)(2)?		
(d) Does the bank furnish either the semi-annual statement regarding customer rights or the shorter form of statement with each peripdic billing? (Section 226.7(d))		
(e) Does the bank credit payments and if necessary adjust charges in accordance with Section 226.7(g)?		
(f) Does the bank credit or refund excess payments in accordance with Section 226.7(h)?		
(g) Does the bank comply with the issuance provisions for credit cards? (Section 226.13(a))		
(h) Does the bank comply with Section 226.13(i)(4) which prohibits the reporting of disputed amounts as delinquent?		
(i) Does the bank comply with the prohibition against offsets related to credit cards? (Section 226.13(j))		
(j) Does the bank promptly credit a customer's account for credit refunds? (Section 226.13(k)(2))		
(k) Does the bank comply with Section 226.13(l) which prohibits certain acts by card issuers?		
(l) Does the bank correctly follow the billing error resolution procedure? (Section 226.14)		
4. Is the bank providing correct disclosures on credit other than open end? (Sections 226.6 and 226.8)		
5. With respect to any consumer paper purchased by the bank or held by it as collateral, are the disclosures made therein correct? (Sections 226.6 and 226.8)		
6. Is the bank properly observing the right of rescission in applicable credit transactions? (Section 226.9)		
7. Based on applicable information, is the bank making correct disclosures in its advertisements? (Section 226.10)		
8. Has the bank adopted procedures which assure that its employees are making proper oral disclosures of annual rates? (Interpretation 226.101)		

COMMENTS:

FEDERAL DEPOSIT INSURANCE CORPORATION	EXAM. *(Close of business)*	NUMBER
VIOLATIONS	NUMBER OF OFFICES	TOTAL ASSETS
NAME OF BANK		
CITY / COUNTY	STATE	

NOTE: *Specific reference to the statute, regulation or policy which appears to have been violated is detailed below. In each instance, management's indicated remedial action is noted.*

DESCRIPTION AND COMMENTS

(Examiner)

FDIC 6500/55 (6-76)

Mr. ROSENTHAL. Thank you very much, Mr. Early, for a very good report.

Mr. Taylor, in the chart which you have appended to your statement, you list a total of 337 violations. Could you describe whether these were technical violations or serious violations?

And if they were serious, how serious were they and how much money was involved?

Mr. TAYLOR. Mr. Chairman, they cover the gamut, I suppose, from serious to minor violations.

Mr. ROSENTHAL. Then these could not be described as technical violations?

Mr. TAYLOR. They are all technical, in a sense.

Mr. ROSENTHAL. I would like to differentiate between what is continually reported as "technical violations" and the more substantive type of violations.

Mr. TAYLOR. We would consider the more substantive type of violation to be one where the finance charges have been incorrectly calculated—where the APR has subsequently been improperly calculated and has resulted in a misstated APR so that the customer did not have an adequate opportunity to shop fairly for credit.

For example, the APR might be stated at 8.25 percent when the effective rate or the real rate might have been 8.75 percent. In those instances, we did ask for restitution to the customer of the difference.

Mr. ROSENTHAL. Do you have any notion of how much money was returned to customers? If you can, give examples.

Mr. TAYLOR. In some instances, it would amount to perhaps as much as $1,500 to a customer. I think the most we ever got from one bank was, in total, around $30,000 or $35,000.

Mr. ROSENTHAL. Could you tell us something more about these 337 violations so that we can understand them?

Do you have specific knowledge of them?

Mr. TAYLOR. I have somewhat of an overview of them. Some of them are merely slightly technical violations. I do not readily recall what all of the sections that I cite here relate to, but in some instances it would be failure to give a proper notice of rescission; it might be a failure to give a waiver of rescission when a bank has put a future advances clause in a mortgage. That, however, I would say would not be of as much concern to the customer as an improper statement of the APR.

Mr. ROSENTHAL. You have listed 27 banks. And they seem to be fairly representative. There isn't any one bank in this group that stands out more notoriously than any other. It runs from 19 violations down to 4 violations.

Now after the violations were brought to the attention of the bank and corrected, did you find in the following time period a similar number of violations by that bank, or did you find that the number of violations was reduced?

Mr. TAYLOR. These 27 banks relate to the special examinations we conducted in New England. Only one of those banks had a followup examination.

However, a couple of the banks did receive a followup examination by our regular examination process. We did find a substantial reduction.

Mr. ROSENTHAL. The point was made yesterday, as I understand it, by the three State examiners that when you use specially trained examiners for this kind of inquiry—as compared to the soundness type of examination—you do pick up more violations. They were more tuned in or more concerned with or more interested in or more aware of these kinds of considerations.

Mr. TAYLOR. Yes, sir, that is why we are going to that process. We started training this week on specialized consumer protection examinations.

Mr. ROSENTHAL. Governor, you may want to answer my next question.

There is considerable logic in the suggestion that soundness investigations should not be made public because it could result in a loss of confidence in a bank. However, it was suggested yesterday that in this area—an area where soundness is not really involved—findings should be made public.

When there is a question about whether or not there is a mistake or a violation or a misstated APR, it is not an issue of soundness that would cause a run on a bank. But it is an issue which is of concern and of interest to consumers. If they are in fact shopping for loans, they should know that bank A has had more of a history of violations than has bank B. Then, maybe they would choose, under those circumstances, to go to bank B.

Why not make public the names of the banks in which these violations occur?

Mr. JACKSON. As I mentioned in my testimony, that is one of the issues we are studying, Mr. Chairman. We are right now trying to determine whether or not that would be an appropriate enforcement process.

One of the concerns that I, as a person with some responsibilities in this area, have is that many of the violations, as you know, that would be publicized are technical in nature. However, the consequences of civil damages to the financial institution apply just as much to the technical violations as to the substantive ones.

Mr. ROSENTHAL. Then we ought to somehow change that. In other words, let us assume that we can lay technical violations aside.

Mr. JACKSON. I do not think there is any question but that if that provision of the statute were changed, it would present an entirely different balance in weighing the merits of disclosure versus nondisclosure.

Mr. ROSENTHAL. Have you made representations to the Congress to deal with this issue?

Mr. JACKSON. We certainly have. We recommended to the Banking Committee of the Senate, with copies of our correspondence to the House, that this be considered and acted upon. We encouraged them to do so.

Mr. ROSENTHAL. Is there any advantage—both from a cost/benefit theory and from a public policy point of view—in separating the examinations from the solvency and liquidity examinations as to the truth-in-lending compliance examinations?

In other words, is there an advantage in having two separate examiners and two separate kinds of examinations?

Mr. JACKSON. We think so. That is the reason we have inaugurated a program to do just that.

Let me emphasize, however, that our proposal is not based purely on truth in lending, but on the realization that there has been an explosion of consumer credit requirements of all types on all creditors.

Mr. ROSENTHAL. Has this been good for banking consumers?

Mr. JACKSON. We have not had enough experience under these statutes to learn that yet. That is one of the questions that will have to be answered.

Mr. ROSENTHAL. For the guy who got back $30,000 due to the intercession of the FDIC, it was good, wasn't it?

Mr. TAYLOR. That was not for one person, but the total rebates for a bank.

Mr. ROSENTHAL. What was the largest amount that any single borrower got back as a result of the examinations which you include in your list?

Mr. TAYLOR. I am not sure. I think I said earlier that it was in the neighborhood of $1,500 to $2,000.

Mr. ROSENTHAL. Then at least that one person who got back some $1,500 is pleased with these new procedures.

At any rate, my judgment is that although the States that were exempted seem to have been more vigorous in enforcement, you are apparently making an effort to catch up, to train new people, and to deal with this issue in a responsible way. That seems to be what everyone here today is saying. And if these regulations are too technical or too difficult to deal with. Congress has responsibility for handling the issue. And the Board of Governors has recomended that.

Mr. EARLY. Sir, at the FDIC, we have not as yet gone into specialization. As I pointed out earlier, we are considering it. It certainly has some obvious merits. The laws are complex and many. Somebody who is spending full time on something is likely to be able to do a better job, I think, than somebody who is spending part of his time on it.

At the same time, up until now at least, we like to think that our examiners have been handling the safety and soundness approach and the consumer protection approach at the same time. We like to think that they are men and women of all seasons and that they have been able to adapt to this.

Mr. ROSENTHAL. It seems to me that from an efficiency point of view that the person who is doing the safety and soundness examination would require considerably more training and skill than one doing a truth-in-lending examination. And you may be wasting good talent by having a safety and soundness person do the consumer protection work.

Mr. EARLY. I very much agree. I have thought at times, in fact, that perhaps young people could do good work in consumer protection if they had good training and supervision by a senior person.

Mr. ROSENTHAL. That is the way it appears to me.

Do you have questions, Mr. Brown?

Mr. BROWN. Thank you, Mr. Chairman.

I think we might do well to go back to the basic statute which we are talking about. As I understand it, one of the leading cases is the case of *Ratner* v. *Chemical Bank of New York*. There, the court pointed out that its jurisdiction was based upon section 130 of the act, which provides:

(a) *Failure to disclose.*

Except as otherwise provided in this section, any creditor who fails in connection with any consumer credit transaction to disclose to any person any information required under this part to be disclosed to that person is liab'e to that person in an amount equal to the sum of (1) twice the amount of the finance charge in connection with the transaction, except that the liability under this paragraph shall not be less than $100 nor greater than $1,000; and (2) in the case of any successful action to enforce the foregoing liability, the costs of the action together with a reasonable attorney's fee as determined by the court.

Then there is a disclaimer provision which says:

Unintentional violations, bona fide errors. A creditor may not be held liable in any action brought under this section for a violation of this part if the creditor shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error.

In this case, the court then went on to find that since the bank provided the forms, any omission in the forms, in effect, was an intentional act.

And the court said:

There is no requirement that the plaintiff prove he himself was deceived. There is no requirement that he should have been led by the deception to pay the "finance charge in connection with the transaction."

It goes on to say:

It is undisputed that defendant carefully, deliberately—intentionally—omitted the disclosure in question. That defendant, in this court's view, mistook the law does not make its action any less intentional.

Later, it says:

A defendant invoking this excuse is required not merely to show the clerical error was unintentional, but also that due care has been taken to set up procedures to avoid it.

I suppose this is why we get into this technical violations problem. According to this case, anything that is omitted from the form, in effect, constitutes an intentional act because the law contemplates that you will set up procedures that will obviate the possibility of an omission. It seems to me that that is where we run into a lot of problems.

That, I suppose, is what you were talking about, Governor Jackson, when you were saying that we ought to simplify the law.

Certainly, this chart which has been provided by the Comptroller's Office does some good. But I would have hoped that you could have come in here today with a better narrative discussion of the violations rather than this chart. We do not know what these different sections of the regulations refer to.

I notice that the preponderance of violations are in the area which is described on the chart as 226(8), *a* through *u*. Could you describe to me what those are?

Mr. TAYLOR. Congressman, that basically involves disclosures on closed end credit.

Mr. BROWN. If I may digress for a second, I think that we have hit upon a problem that I have seen for some time. That problem is the decision to have regulators of our financial institutions to get into a lot of this kind of regulatory activity.

What is the charge to the Comptroller's Office with respect to the examination of banks? Is it not basically to maintain safe and sound banking practices?

Mr. TAYLOR. Our contention would be that it goes beyond that. We are protecting the depositors. In doing that, we have to look at the safety and soundness of the bank. We are concerned with liquidity, capital, the quality of the loan portfolio, the quality of investments, and so forth.

Mr. BROWN. Where, in your enabling statute, does it impose upon you the responsibility and duty to enforce the Truth in Lending Act?

Mr. TAYLOR. That is in the act itself, sir.

Mr. BROWN. I know it is. But where in your basic enabling act that sets up the Comptroller's Office is that?

Mr. TAYLOR. That was established in 1863 and 1864 in the National Banking Act and the National Currency Act.

Mr. BROWN. Do the words "consumer protection" appear in your enabling legislation?

Mr. TAYLOR. Not that I am aware of.

Mr. BROWN. Does it appear in the FDIC's?

Mr. EARLY. No, sir.

Mr. BROWN. Does it appear in the Federal Reserve's?

Mr. JACKSON. I do not believe it is in the Federal Reserve Act.

Mr. BROWN. You have discussed a problem with disclosing violations of truth in lending which arises because disclosure would put the examiner in the position of an adversary. In your function of examining banks for safe and sound banking practices, you rely upon a kind of gentlemanly openness between the bank and the regulator with respect to your examinations. But when you get into this area, you are changing from openness into a position that is basically adversary.

Is that not correct?

Mr. TAYLOR. That is no more so than it is in a discussion of an 84 violation, I do not believe.

Mr. BROWN. But your basic posture in bank examinations involves the protection of the depositors and the soundness of the bank.

Mr. TAYLOR. I think in some instances that consumer protection laws can affect the safety and soundness of banks.

Mr. BROWN. If you separated the whole area of consumer protection—truth in lending, equal credit opportunity, fair credit reporting, fair credit billing, et cetera—from the bank soundness examination, you would not have to look at the bank examination reports for the things for which your Office is responsible, would you?

Mr. TAYLOR. No, sir. We are not planning to do that except as an adjunct.

Mr. BROWN. But, a person enforcing all of these consumer measures would only have to look at the very outside end of a bank's activities—only the relationship of the bank to its depositors and to its borrowers. They would not have to go in to see what the bank's liquidity position is or anything else, would they?

Mr. TAYLOR. Yes, that is correct.

Mr. BROWN. We know that Penney's and Sears and other credit card businesses' transactions are not subject to your activities, but basically under the FTC.

What percentage of the transactions that are subject to the Truth in Lending Act come under your jurisdiction?

Mr. TAYLOR. Do you mean collectively under the jurisdiction of the three agencies here?

Mr. BROWN. Yes.

Mr. TAYLOR. One-third.

Mr. JACKSON. I don't know the answer to that question. It may be extraordinarily difficult to answer simply because the Truth in Lending Act applies to every individual or to every entity who regularly extends credit.

Mr. BROWN. Governor Jackson, that is exactly my point. But according to my best estimate, those of you here today probably represent responsibility for one-fourth of the transactions.

Mr. JACKSON. I have heard reports, but I don't know whether they are factual or not—they may be erroneous—but I have heard reports that the Federal Trade Commission has 1 million creditors under its supervision.

I believe Mr. Dugger may be more familiar with those facts than I.

Mr. BROWN. And you have how many?

Mr. JACKSON. The total banking system has approximately 14,000 banks. The Board has responsibility only for approximately 1,050 State member banks.

Mr. BROWN. I remember that the title of this subcommittee is the Commerce, Consumer, and Monetary Affairs Subcommittee. And I assume that we are looking at this issue from the standpoint of the consumer. We should be.

But to the best of my knowledge, the only people scheduled to be heard before this committee at this point to determine the enforcement of truth in lending are you three gentlemen. That is the extent of it insofar as regulators are concerned. So we are looking at the regulators of 14,000 out of over 1 million. That is rather a strange phenomenon.

Mr. Early, in your statement for the FDIC, you have indicated that in the last year and a half 48,000 man-hours have been spent on truth-in-lending examinations.

What would you say that your annual cost has been for these examinations and for all of the administrative hierarchy that goes into the preparation of regulations, as well as examination?

Mr. EARLY. I would have to approach it this way. It would be less than 10 percent of our examination/supervisory budget.

Mr. BROWN. And what is your examination/supervisory budget?

Mr. EARLY. It is close to $40 million, I believe.

Mr. BROWN. So then it may be $4 million.

Mr. EARLY. I think that is about right.

Mr. BROWN. Do you know what the FDIC testified would be the estimate of the cost of enforcement of truth in lending when the bill was passed?

Mr. EARLY. No, I do not, sir.

Mr. BROWN. I don't either. But I know that it would not begin to come to $4 million a year.

Mr. EARLY. That is only an estimate. If I find that I am in error, I will advise the committee.

Mr. BROWN. Also, I think it might be nice if you would go back and see what the testimony was from the FDIC, the Comptroller's Office, and the Federal Reserve on the cost of enforcement of truth in lending when it was passed.

I say that because for 2 years after the truth-in-lending bill was passed, I contacted a whole cross section of consumers. I think I probably contacted 50 or better. Do you know that I found only one person who had changed a credit transaction because of truth in lending?

And the whole theory of truth in lending was to encourage comparative shopping by consumers.

Your testimony this morning has been that the real problem is a failure to distinguish technical violations, or those not resulting in actual harm, from violations which could result in injury to a consumer. And the fact that we do not have those different violations broken down is the problem. I think that is what we really need to have in order to see how well the enforcement law has been going.

It seems to me that we should be concerned with the actual harm to the consumer rather than with violations which result in liability to the creditor.

[Governor Jackson subsequently submitted the following information for the record:]

Representatives of the Federal Reserve System have not testified before Congress concerning the cost of enforcement by its State member banks or other financial institutions under Truth in Lending from 1967 through 1969.

Mr. ROSENTHAL. Mr. Brown, would you suspend for just a minute?

Mr. BROWN. Yes.

Mr. ROSENTHAL. Gentlemen, we have a recorded vote over on the floor and we are going to have to adjourn now. Would you respond to Mr. Brown's question in writing?

Mr. TAYLOR. I could respond very quickly: we have supplied that.

Mr. ROSENTHAL. If you can't do it in about 30 seconds, we are going to miss the vote and our constituents will want to know why. And it will take us 3 days to write that letter.

Mr. TAYLOR. We have supplied you with the examination report.

Mr. ROSENTHAL. Try to do it in writing, and try to amplify some of the other questions he had concerning the 337 violations. I think that would be very useful to us.

I want to thank each of you. We apologize for having to run.

The subcommittee stands adjourned.

[Whereupon, at 11:12 a.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIXES

APPENDIX 1.—CONNECTICUT

STATE OF CONNECTICUT

BANKING DEPARTMENT

STATE OFFICE BUILDING, HARTFORD 06115

October 6, 1976

Mr. Robert Bloom
Acting Comptroller of the Currency
15th Street and Pennsylvania Avenue
Washington, D. C. 20220

Dear Mr. Bloom:

Please be advised that this department has proposed to the Board of Governors of the Federal Reserve System that the truth in lending exemption of the State of Connecticut be expanded to include jurisdiction over national banks, federal savings and loan associations, and federal credit unions.

It is our desire to conduct an inspection of each such federal-chartered institution on a regular annual basis to determine the extent of compliance with the truth in lending and other Connecticut consumer credit statutes. Copies of the reports of these inspections would be provided to your office as they are completed. As is the case currently with state-chartered creditors, each institution would be required to provide a detailed response to any violation noted and to provide corrected disclosure statements, rights of rescission, and rebates for understated annual percentage rates where appropriate.

Institutions that repeatedly or significantly violate the consumer credit laws would be subject to public disclosure of such violations. However, identity of borrowers would remain confidential.

The Banking Department presently has a separate staff of ten trained professionals and anticipates adding two more professionals to examine federal-chartered institutions. Their sole function is consumer credit compliance examinations. For your information there is enclosed a copy of our most recent truth in lending report to the Board of Governors of the Federal Reserve System.

We are requesting this authority because we believe consumer credit enforcement is a local matter. Connecticut consumers do not distinguish between a state and federal-chartered institution. Because we are located closer to the Connecticut consumer, we believe we can provide quicker response and more personal attention. In addition, federal-chartered institutions would be afforded the protection of Banking Department formal rulings that approved such items as Connecticut Student Loan disclosure forms. Lastly, we do not believe applicability and enforcement of the Connecticut consumer credit laws by the

Mr. Robert Bloom
Acting Comptroller of the Currency
15th Street and Pennsylvania Avenue
Washington, D. C. 20220

October 6, 1976

Connecticut Banking Department would interfere with the purposes or function of the National Bank Act, the Home Owners' Loan Act of 1933 or the Federal Credit Union Act but rather would supplement efforts at a federal level to provide consumer credit protection. Enforcement by the Connecticut Banking Department would also save the federal agencies the additional expense of staff in this area. After eight years of active enforcement of truth in lending laws as well as several decades of consumer credit compliance enforcement by means of regulation of small loan companies, the Connecticut Banking Department possesses the resources and interest to conduct consumer credit enforcement with respect to all institutions, both state and federal-chartered operating within the state.

In conjunction with the processing of our application for additional exemption, the Federal Reserve Board has requested that we solicit your comments with respect to this proposal and determine what suggestions you may have to enhance the effectiveness of such a program.

Inasmuch as we would like to initiate this program as soon as possible, we would appreciate your attention to this matter as rapidly as time permits.

Very truly yours,

Lawrence Connell

Lawrence Connell, Jr.
Bank Commissioner

LC:an
Enc.

STATE OF CONNECTICUT
BANKING DEPARTMENT
STATE OFFICE BUILDING, HARTFORD 06115

October 6, 1976

Mr. Garth Marston
Acting Chairman
Federal Home Loan Bank Board
320 First Street
Washington, D. C. 20552

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We are requesting this authority because we believe consumer credit enforcement is a local matter. Connecticut consumers do not distinguish between a state and federal-chartered institution. Because we are located closer to the Connecticut consumer, we

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believe we can provide quicker response and more personal attention. In addition, federal-chartered institutions would be afforded the protection of Banking Department formal rulings that approved such items as Connecticut Student Loan disclosure forms. Lastly, we do not believe applicability and enforcement of the Connecticut consumer credit laws by the Connecticut Banking Department would interfere with the purposes or function of the National Bank Act, the Home Owners' Loan Act of 1933 or the Federal Credit Union Act, but rather would supplement efforts at a federal level to provide consumer credit protection. Enforcement by the Connecticut Banking Department would also save the federal agencies the additional expense of staff in this area. After eight years of active enforcement of truth in lending laws as well as several decades of consumer credit compliance enforcement by means of regulation of small loan companies, the Connecticut Banking Department possesses the resources and interest to conduct consumer credit enforcement with respect to all institutions, both state and federal-chartered operating within the state.

In conjunction with the processing of our application for additional exemption, the Federal Reserve Board has requested that we solicit your comments with respect to this proposal and determine what suggestions you may have to enhance the effectiveness of such a program.

Inasmuch as we would like to initiate this program as soon as possible, we would appreciate your attention to this matter as rapidly as time permits.

Sincerely,

Lawrence Connell, Jr.
Bank Commissioner

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Enc.

STATE OF CONNECTICUT
BANKING DEPARTMENT
STATE OFFICE BUILDING, HARTFORD 06115

October 6, 1976

Mr. G. Austin Montgomery, Administrator
National Credit Union Administration
Office of the Administrator
Washington, D. C. 20456

Dear Mr. Montgomery:

Please be advised that this department has proposed to the Board of Governors of the Federal Reserve System that the truth in lending exemption of the State of Connecticut be expanded to include jurisdiction over national banks, federal savings and loan associations, and federal credit unions.

It is our desire to conduct an inspection of each such federal-chartered institution on a regular annual basis to determine the extent of compliance with the truth in lending and other Connecticut consumer credit statutes. Copies of the reports of these inspections would be provided to your office as they are completed. As is the case currently with state-chartered creditors, each institution would be required to provide a detailed response to any violation noted and to provide corrected disclosure statements, rights of rescission, and rebates for understated annual percentage rates where appropriate.

Institutions that repeatedly or significantly violate the consumer credit laws would be subject to public disclosure of such violations. However, identity of borrowers would remain confidential.

The Banking Department presently has a separate staff of ten trained professionals and anticipates adding two more professionals to examine federal-chartered institutions. Their sole function is consumer credit compliance examinations. For your information there is enclosed a copy of our most recent truth in lending report to the Board of Governors of the Federal Reserve System.

We are requesting this authority because we believe consumer credit enforcement is a local matter. Connecticut consumers do not distinguish between a state and federal-chartered institution. Because we are located closer to the Connecticut consumer, we believe we can provide quicker response and more personal attention. In addition, federal-chartered institutions would be afforded the protection of Banking Department formal rulings that approved such items as Connecticut Student Loan disclosure forms. Lastly, we do not believe applicability and enforcement of the Connecticut consumer credit laws by the

Mr. G. Austin Montgomery, Administrator
National Credit Union Administration
Office of the Administrator
Washington, D. C. 20456

October 6, 1976

Connecticut Banking Department would interfere with the purposes or function of the National Bank Act, the Home Owners' Loan Act of 1933 or the Federal Credit Union Act but rather would supplement efforts at a federal level to provide consumer credit protection. Enforcement by the Connecticut Banking Department would also save the federal agencies the additional expense of staff in this area. After eight years of active enforcement of truth in lending laws as well as several decades of consumer credit compliance enforcement by means of regulation of small loan companies, the Connecticut Banking Department possesses the resources and interest to conduct consumer credit enforcement with respect to all institutions, both state and federal-chartered operating within the state.

In conjunction with the processing of our application for additional exemption, the Federal Reserve Board has requested that we solicit your comments with respect to this proposal and determine what suggestions you may have to enhance the effectiveness of such a program.

Inasmuch as we would like to initiate this program as soon as possible, we would appreciate your attention to this matter as rapidly as time permits.

Very truly yours,

Lawrence Connell, Jr.
Bank Commissioner

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Enc.

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] April 14, 1975 [redacted]	No exceptions or comments	Jan. 19, 1976	1. APR underdisclosed and overdisclosed as a result of irregular first payment period. 2. Improper credit sales disclosure. 3. Incorrect APR on Time Secured, Unsecured Loans. 4. Security interest not identified on Time Secured Notes. 5. Incorrect APR on Demand Loans. No. of Exceptions Cited: 114 Amount of Adjustment: $642.64
[redacted] March 8, 1976 [redacted]	No exceptions or comments	June 5, 1975	1. Incorrect disclosure of all mortgages on which "points" were charged. 2. APR underdisclosed and overdisclosed as a result of irregular first payment period. No. of Exceptions Cited: 102 Amount of Adjustment: $27,980
[redacted] August 25, 1975 [redacted]	No comment	Feb. 26, 1976	1. Incorrect disclosure of Amount Financed when prepaid charges are imposed. 2. APR underdisclosed on mortgages as a result of Prepaid Finance Charges. 3. Incorrect disclosure of commitment fee. 4. Incorrect disclosure of Finance Charge on rescindable transactions. 5. Home Improvement Loan Notes not dated or dates incomplete and Finance Charge often not disclosed. No. of Exceptions Cited: 55 Amount of Adjustment: $550

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] April 5,1976 [redacted]	No comment	May 4, 1976	1. APR underdisclosed and overdisclosed as a result of irregular first payment period. 2. APR incorrectly calculated on Time Notes. 3. APR frequently not disclosed. No. of exceptions cited: 20 Amount of Adjustment: $100 (estimated)
[redacted] December 27, 1974 [redacted]	No comments or exceptions	March 8, 1976	1. APR underdisclosed and overdisclosed on Instalment Loans as a result of irregular first payment period. 2. Security interest not identified on secured loans. 3. Right of Rescission not properly offered. No. of exceptions cited: 23 Amount of Adjustment: $73.74
[redacted] March 15, 1976 [redacted]	No comments or exceptions	Dec. 9, 1975	1. Several notes were undated. 2. APR not disclosed. 3. APR incorrectly disclosed as a result of irregular first payment period. 4. Security interest not described on secured car loans. 5. APR underdisclosed and overdisclosed on Time-Secured and Unsecured Loans. 6. No repayment schedule disclosed on mortgages. No. of exceptions cited: 119 Amount of Adjustment: $69.19

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] September 2, 1975 [redacted]	No comments or exceptions	Nov. 26, 1975	1. Home Improvement Loan Note and disclosure does not provide for identification of security interest which the bank retains. 2. Right of Rescission not properly offered to qualified borrowers. 3. APR underdisclosed and overdisclosed on Collateral Loans. No. of exceptions cited: 47 Amount of Adjustment: $922.50
[redacted] November 10, 1975 [redacted]	No comments	Dec. 26, 1975	1. Finance Charge and Total of Payments omitted on rescindable transactions. 2. MGIC fees not disclosed as Prepaid Finance Charge No. of exceptions cited: 4 Amount of Adjustment: $311.45
[redacted] September 29, 1975 [redacted]	Bank found to be in violation of Reg. Z 226.6 requiring clear, conspicuous, meaningful disclosures.	May 6, 1976	1. APR underdisclosed on mortgages as a result of prepaid charges having been ignored. 2. No Truth in Lending disclosure on file for several loans. No. of exceptions cited: 84 Amount of Adjustment: $1,500 (estimated)

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] January 5, 1976	No comment	March 16, 1976	1. Incorrect disclosure of $20 additional premium for mortgages with private mortgage insurance. 2. APR underdisclosed and overdisclosed on instalment loans as a result of irregular first payment period. 3. Incorrect disclosure of Finance Charge on rescindable transactions, should include Prepaid Finance Charge. 4. APR underdisclosed on passbook loans. No. of exceptions cited: 195 Amount of Adjustment: $900 (estimated)
[redacted] May 19, 1975	Found bank to be in compliance	March 1, 1976	1. Underdisclosed APR as a result of irregular first payment period. 2. Overdisclosed APR. 3. Several undated notes. 4. Incorrect APR on Demand Loans. 5. Omission of some required disclosures. No. of exceptions cited: 114 Amount of Adjustment: $500 (estimated)
[redacted] May 12, 1975	No comments or exceptions	Dec. 5, 1975	1. Incorrect disclosure of APR on Demand Loans. 2. Incorrect disclosure of MGIC fees - disclosed as excludable. 3. Incomplete RESPA disclosures. No. of exceptions cited: 20 Amount of Adjustment: $50 (estimated)

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] January 5, 1976	No comments or exceptions	Jan. 29, 1976	1. APR underdisclosed and overdisclosed as a result of irregular first payment period. 2. Prepaid Finance Charge omitted on several mortgages. 3. Underdisclosed APR on several mortgages. No. of exceptions cited: 35 Amount of Adjustment: $223.03
[redacted] January 19, 1976	The bank is not computing the APR correctly	Oct. 30, 1975	1. Bank understates and overstates the APR on instalments. 2. APR on Time-Unsecured Notes are understated whenever the minimum Finance Charge is imposed. No. of exceptions cited: 11 Amount of Adjustment: $10
[redacted] March 24, 1975	No comment	March 17, 1976	1. Prepaid Interest on Instalment Loans not included in Finance Charge. 2. APR underdisclosed on Instalment Loans. 3. Incorrect disclosure of Construction-Permanent Loans. No. of exceptions cited: 18 Amount of Adjustment: $1,348.05 (53 loans)

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] March 22, 1976	No comment	Aug. 14, 1975	1. APR underdisclosed and overdisclosed on instalment loans due to irregular first payment period. 2. Right of Rescission not properly offered. No. of Exceptions Cited: 26 Amount of Adjustment: $200
[redacted] March 15, 1976	No comment	Aug. 11, 1975	1. Right of Rescission not properly offered. 2. Demand Loans not Properly Disclosed. No. of Exceptions Cited: 12 Amount of Adjustment: None
[redacted] August 18, 1975	No comment	Oct. 9, 1975	1. APR underdisclosed and overdisclosed on instalment loans due to irregular first payment period. 2. Finance Charge not disclosed on rescindable transaction. 3. Right of Rescission not properly offered. 4. Prepaid Finance Charge not correctly disclosed on mortgages. No. of Exceptions Cited: 13 Amount of Adjustment: $14.99

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] August 4, 1975	APR incorrectly disclosed due to irregular first payment period.	Sept. 29, 1975	1. Amount Financed incorrectly disclosed on mortgages. 2. Total of Payments incorrectly disclosed. Number of Exceptions Cited: 3 (52 loans affected) Amount of Adjustment: None
[redacted] November 24, 1975	No comment	March 29, 1975	1. APR overdisclosed and underdisclosed on instalment loans due to irregular first payment period. 2. Many notes not dated or had incomplete dates. 3. APR incorrectly disclosed on time notes, especially when minimum Finance Charge imposed. 4. Forms do not provide for correct disclosures of all required disclosure elements. Number of Exceptions Cited: 69 Amount of Adjustment: $137.77
[redacted] December 1, 1975	APR disclosed as "minimum charge"	July 7, 1975	1. APR underdisclosed on time and instalment loans. 2. Right of Rescission not properly offered. Number of Exceptions Cited: 20 Amount of Adjustment: $10

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] January 5, 1976	No comment	March 17, 1976	1. Incorrect disclosure of Prepaid Finance Charge on instalment loans. 2. Inconsistent disclosure of late charge payments. 3. Incorrect disclosure of construction-permanent mortgages. Number of Exceptions Cited: 17 (all loans affected) Amount of Adjustment: $1,348.05
[redacted] March 8, 1976	No comment	Nov. 24, 1975	1. Incorrect disclosure of "balloon payment" on mortgages. 2. Incorrect disclosure of mortgages with demand features. Number of Exceptions Cited: 7 Number of Corrected Disclosures: 250 Amount of Adjustment: None
[redacted] June 9, 1975	No comment	May 18, 1976	Mortgages: 1. Incorrect disclosure of application fee. 2. APR underdisclosed as a result of incorrect Prepaid Finance Charge. 3. Right of Rescission not properly offered. 4. Incorrect disclosure of Prepaid Finance Charge on construction-permanent loans. Instalment: 1. APR underdisclosed and overdisclosed as a result of irregular first payment periods.

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted]			2. Deferred Payment Price not disclosed on credit sale. Number of Exceptions Cited: 170 Amount of Adjustment: $100
[redacted] Oct. 6, 1975	Forms do not provide all relevant disclosures.	Aug. 26, 1975	1. Forms do not provide all relevant disclosures. 2. Amount Financed and Total of Payments disclosed as same as time notes. Number of Exceptions Cited: 11 Amount of Adjustment: $26.50
[redacted] November 17, 1975	No comment	Oct. 16, 1975	1. APR underdisclosed on mortgages when Prepaid Finance Charge is ignored. 2. "Land Only" loans incorrectly disclosed. Number of Exceptions Cited: 14 Amount of Adjustment: $447.46
[redacted] November 3, 1975	No comment	Aug. 25, 1975	1. APR underdisclosed and overdisclosed due to irregular first payment period on instalment loans. 2. Amount Financed and Total of Payments disclosed as same sum on demand loans. Number of Exceptions Cited: 22 Amount of Adjustment: $14.16

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] May 7, 1976	No comment	June 21, 1976	1. Finance Charge not disclosed on rescindable mortgages. 2. Finance Charge and Amount Financed not disclosed on collateral loans. 3. Rates quoted in newspaper ad not designated as APR. Number of Exceptions Cited: 14
[redacted] September 22, 1975	No comment	Feb. 25, 1976	1. Right of Rescission not properly offered to qualified borrowers. 2. APR incorrectly disclosed on all demand loans. 3. Precomputed interest on instalment loans disclosed as Prepaid Finance Charge. 4. APR not disclosed or incorrectly disclosed on mortgages. Number of Exceptions Cited: 20 Amount of Adjustment: $110.58
[redacted] September 29, 1975	No comment	June 22, 1976	1. APR underdisclosed and overdisclosed on instalment loans. 2. Security interest not described and secured propert not identified on instalment loans. 3. Right of Rescission not properly offered. Number of Exceptions Cited: 18 Amount of Adjustment: $50

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] June 23, 1975	No comment	Dec. 4,1975	1. APR underdisclosed and overdisclosed due to irregular first payment period on instalment loans. 2. APR underdisclosed on mortgages. Number of Exceptions Cited: 11 Amount of Adjustment: $32.95
[redacted] October 27, 1975	APR underdisclosed. 9 loans cited.	April 26,1976	1. Disclosure of mortgages does not provide for due date of payments. 2. APR underdisclosed or overdisclosed on instalment loans due to irregular first payment period. APR not disclosed or disclosed as "min. charge." 3. Amount Financed and Total of Payments disclosed as same sum on demand loans. Number of Exceptions Cited: 94 Amount of Adjustment: $49.40
[redacted] January 26, 1975	No comment	Jan. 8, 1976	1. APR underdisclosed and overdisclosed on instalment loans.due to irregular first payment period. 2. Total of Payments and Amount Financed disclosed as same sum on demand loans. 3. Prepaid Finance Charge not correctly disclosed on mortgages. Number of Exceptions Cited: 72 Amount of Adjustment: $90

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] February 9, 1976	No comments	Feb. 2, 1976	1. APR not disclosed correctly due to irregular first payment period. 2. Undated notes. 3. Security interest not identified. 4. APR incorrectly disclosed on time notes when minimum finance charge is imposed. Number of Exceptions Cited: 90 Amount of Adjustment: $110
[redacted] June 1, 1976	Forms do not provide for all required disclosures.	May 6, 1976	1. Forms do not provide for all required disclosures. 2. Security interest not identified and described on instalment loans. Number of Exceptions Cited: 7 Amount of Adjustment: None
[redacted] March 22, 1976	No comment	March 22,1976	1. Customers did not indicate desire for credit life insurance. 2. Right of Rescission not properly offered. 3. APR not correctly disclosed on mortgages. Number of Exceptions Cited: 7 Amount of Adjustment: $15

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] May 5, 1975	No comment	Feb. 24, 1976	1. Total of Payments incorrectly disclosed on rescindable transactions. 2. Finance Charge incorrectly disclosed on rescindable transactions. 3. APR underdisclosed. 4. Finance Charge incorrectly disclosed on instalment loans. Number of Exceptions Cited: 12 Amount of Adjustment: None
[redacted] October 6, 1975	No comment	Oct. 1, 1975	1. Finance Charge not disclosed on instalment loans. 2. Inconsistent disclosure of late payment and default charges. 3. Repayment schedule not disclosed. 4. Amount Financed and Finance Charge not disclosed on passbook loans. Number of Exceptions Cited: 103 Amount of Adjustment: None

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Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] October 6, 1975	No comment	Aug. 28, 1975	1. APR underdisclosed and overdisclosed due to the effect of irregular first payment period on instalment loans. 2. Prepaid Finance Charge not disclosed on passbook loans. 3. Undated notes. Number of Exceptions Cited: 10 Amount of Adjustment: $5.41
[redacted] October 6, 1975	No comment	Feb. 24, 1975	1. APR underdisclosed on instalment loans. 2. "Minimum Charge" substituted for APR. 3. Finance Charge on demand loans computed for 3 months instead of one-half year. 4. Finance Charge incorrectly disclosed on rescindable transactions. Number of Exceptions Cited: 42 Amount of Adjustment: $30
[redacted] April 2, 1976	No comment	March 2, 1976	1. APR underdisclosed on mortgages due to effect of Prepaid Finance Charge. Number of Exceptions Cited: 8 Amount of Adjustment: $260

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] June 16, 1975	No comment	May 4, 1976	1. Amount Financed not disclosed on instalment loans. 2. Right of Rescission not properly offered to qualified borrowers. Number of Exceptions Cited: 3 Amount of Adjustment: None
[redacted] April 21, 1975	No comment	June 17, 1976	1. Origination fee on mortgages incorrectly disclosed. 2. Incomplete disclosure of construction-permanent loans. 3. Total of Payments incorrectly disclosed on instalment loans. 4. APR underdisclosed on instalment loans. 5. Finance Charge and Amount Financed incorrectly disclosed on demand loans. Number of Exceptions Cited: 15 Amount of Adjustment: $60

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] October 14, 1975	1. APR not disclosed on consumer notes. 2. APR overdisclosed on consumer notes.	May 24, 1976	1. Incorrect disclosure of credit disability insurance. 2. APR underdisclosed and overdisclosed on mortgages. 3. Security interest not described and secured property not identified on secured loans. 4. APR not disclosed and incorrectly disclosed on demand loans. 5. Dealer-arranged credit not properly disclosed. 6. Required disclosures not displayed in newspaper ad. Number of Exceptions Cited: 45 Amount of Adjustment: $70
[redacted] September 2, 1975	No comment	Sept.23,1975	1. Time-Secured note and disclosure does not provide for description and identification of security interest and secured property. 2. Instalment loan note and disclosure does not provide for identification of secured property when lien on principal dwelling of borrower is recorded. 3. Amount Financed and Total of Payments disclosed as the same on demand loans. 4. APR underdisclosed on demand loans because bank uses a 360-day factor for 183 days to compute one-half year's interest. Number of Exceptions Cited: 14 Amount of Adjustment: $22.73

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] November 10, 1975	No comment	June 10, 1976	1. Incorrect disclosure of APR on demand loans. 2. Incorrect disclosure of Finance Charge and Amount Financed on rescindable transactions. 3. No Truth in Lending disclosure on mortgage. Number of Exceptions Cited: 12 Amount of Adjustment: None
[redacted] April 5, 1975	Right of Rescission not granted to borrowers on loans secured by real estate.	June 14, 1976	1. Right of Rescission not properly offered to qualified borrowers on rescindable transactions. 2. APR incorrectly disclosed on demand loans, especially when minimum Finance Charge of $15 applied. 3. APR not disclosed. Number of Exceptions Cited: 17 Amount of Adjustment: None

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] July 21, 1975	1. Cancellation date missing on notice of Right of Rescission. 2. No indication that rescission offered on rescindable mortgages. Number of Exceptions Cited: 6 (Representing 20% of mortgages checked- 3% of total number of loans)	Feb. 4, 1976	1. APR incorrectly disclosed on instalment loans. 2. Undated notes. 3. Security interest not described on car loans and car not identified. 4. Incorrect disclosure of time-unsecured loans, especially when minimum Finance Charge applied. 5. Finance Charge on demand loans incorrectly computed for one year. 6. Finance Charge on demand loans not disclosed. 7. Bank's "service charge" incorrectly disclosed as excludable. Number of Exceptions Cited: 64 Amount of Adjustment: $63.68
[redacted] September 8, 1975	No comment	June 11, 1975	1. APR underdisclosed and overdisclosed on instalment loans due to irregular first payment periods. 2. Dealer-arranged credit not properly disclosed for lack of APR. 3. Secured property listed as "General Collateral." 4. Debtor not properly identified-name illegible. 5. Demand loans disclosed as being discounted, although there is no stipulated maturity date. 6. Right of Rescission not properly offered. Number of Exceptions Cited: 25 Amount of Adjustment: $20

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] September 22, 1975	No violations cited since corrections had been made.	Feb. 19, 1976	1. Instalment Loan Note used for disclosure of secured loans as well, but does not provide for description of security interest or identification of secured property. 2. Funds disbursed on rescindable transactions before rescission period had expired. 3. Instalment passbook loans not disclosed as instalment loans and demand loans with no stated maturity date disclosed as repayable "on an amortized basis." 4. Repayment schedule not disclosed for construction-permanent loans. Number of Exceptions Cited: 13 Amount of Adjustment: None
[redacted] January 5, 1976	No comment	Jan. 22, 1976	1. Credit life insurance disclosure not provided for on instalment loan note. 2. Notes undated. 3. APR incorrectly disclosed owing to irregular first payment periods on instalment loans. 4. Unacknowledged alterations in body of note. 5. APR incorrectly disclosed on time loans, especially when minimum Finance Charge was imposed. 6. Incomplete notices of Right of Rescission. Number of Exceptions Cited: 28 Amount of Adjustment: $62.40

Name of Bank and Date of Examination	FDIC Compliance Report	Connecticut Examination Date	Connecticut Truth in Lending Examination Findings
[redacted] March 15, 1976	No comments	June 15,1976	1. Bank makes disclosure of late payment and default charges and prepayment conditions on the reverse side of mortgage disclosures. 2. Repayment schedule of instalment loans is disclosed below the place for customer's signature. 3. Insufficient description of bank's security interes and lack of identification of secured property on rescindable transactions. 4. APR underdisclosed as a result of odd first payment period on instalment loans. APR underdisclosed, especially when the minimum Finance Charge was imposed. Number of Exceptions Cited: 38 Amount of Adjustment: $200

Name of Bank	FDIC COMPLIANCE REPORT Date of Examination	Comments and Number of Loans Cited	CONNECTICUT TRUTH IN LENDING EXAMINATION Date of Examination	Number of Loans Cited	Amount of Adjustment
[redacted]	1-12-76	None	8-4-75	33	$ 69.63
[redacted]	9-30-74	None	6-27-75	8	30.00
[redacted]	10-27-75	None	3-17-75	23	300.00
[redacted]	11-24-75	APR disclosed incorrectly	4-8-76	22	11.19
[redacted]	10-6-75	None	5-15-75	2	None
[redacted]	7-28-75	None	7-8-76	22	60.00
[redacted]	9-29-75	None	6-23-76	12	None
[redacted]	11-10-75	None	10-7-75	15	78.85
[redacted]	10-20-75	None	7-21-76	42	90.00
[redacted]	11-3-75	Right of Rescission not being offered	2-4-76	47	None
[redacted]	11-17-75	Incorrect Finance Charge, 4 loans	9-19-75	15	81.92
[redacted]	4-12-76	No comment	11-3-75	17	225.01
[redacted]	3-8-76	No comment	1-13-76	6	45.26
[redacted]	2-10-75	APR incorrect on 1 loan	1-6-76	34	906.28
[redacted]	2-2-76	No comment	12-5-75	19	337.33
[redacted]	6-4-76	No comment	3-3-76	10	None
[redacted]	9-8-75	No comment	11-19-75	60	148.12
[redacted]	4-2-76	No comment	7-1-75	17	None

Name of Bank	FDIC COMPLIANCE REPORT		CONNECTICUT TRUTH IN LENDING EXAMINATION		
	Date of Examination	Comments and Number of Loans Cited	Date of Examination	Number of Loans Cited	Amount of Adjustment
[redacted]	7-14-75	No comment	6-2-76	41	None
[redacted]	4-7-75	No comment	9-9-75	18	$346.41
[redacted]	4-15-76	APR incorrect on 1 loan	6-4-76	24	20.00
[redacted]	9-15-75	No comment	3-5-76	29	71.27
[redacted]	4-15-76	No comment	7-16-76	51	25.00
[redacted]	4-2-76	No comment	3-4-76	10	35.00
[redacted]	4-19-76	No comment	12-15-75	32	50.18
[redacted]	8-4-75	Right of Rescission not properly offered-4 loans cited	4-6-76	71	155.00
[redacted]	8-4-75	APR, Finance Charge and Right of Rescission incorrect-20 loans cited.	4-7-76	57	160.00
[redacted]	3-10-75	No comment	4-12-76	35	120.00
[redacted]	3-1-76	No comment	12-23-75	27	30.00
[redacted]	5-19-75	No comment	10-28-75	17	None
[redacted]	9-29-75	APR incorrect-5 loans cited	4-21-76	33	205.00
[redacted]	2-29-75	No comment	9-16-75	33	None
[redacted]	5-7-76	No comment	3-11-76	4	None
[redacted]	4-12-76	No comment	6-2-75	7	None
[redacted]	3-1-76	Incorrect APR-none cited	7-2-76	13	None

Name of Bank	FDIC COMPLIANCE REPORT		CONNECTICUT TRUTH IN LENDING EXAMINATION		
	Date of Examination	Comments and Number of Loans Cited	Date of Examination	Number of Loans Cited	Amount of Adjustment
[redacted]	8-25-76	Improper Right of Rescission	5-19-76	16	$ 58.11
	5-7-76	No comment	3-22-76	16	None

ANNUAL REPORT TO THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM CONCERNING ENFORCEMENT BY THE STATE OF CONNECTICUT OF THE CONNECTICUT TRUTH IN LENDING ACT AND REGULATIONS FOR THE PERIOD FROM NOVEMBER 1, 1974 TO OCTOBER 31, 1975

1. Creditors Subject to State Jurisdiction

Banking Organizations		
State Banks and Trust Companies (1)	47	
Private Bankers	1	
Savings Banks (2)	67	
Building or Savings and Loan Associations (3)	17	132
State Chartered Credit Unions		172
State Licensed Creditors		
Small Loan Licensees	123	
Sales Finance Licensees	97	
Sales Finance Licensees (Limited)	91	311
Total State Chartered and Licensed Creditors		615
Unlicensed Lenders (Estimated)		125
Retail Businesses (Estimated)		
Automobile Dealers	3,000	
Other Retailers (50% of approximately 11,000)	5,500	8,500
Total Creditors Subject to State Jurisdiction		9,240

2. Examinations Conducted

State Chartered Banking Organizations	125
State Chartered Credit Unions	172
Small Loan Licensees	124
Sales Finance Licensees	32
Sales Finance Licensees (Limited)	91
Retail Businesses	1,257
Unlicensed Lenders	51
Auto Dealers	260
Total Examinations	2,112

(1) 304 branches
(2) 248 branches
(3) 24 branches

3. Enforcement Procedures Relied Upon With Regard to Creditors Not Examined

It is believed that the number of creditors who have not been examined or who may not be examined is modest, since an extended effort is made to reach all potential creditors. It is recognized, however, that there are still some creditors who may not be examined and the department continues to rely upon five basic procedures to bring us into contact with them. The procedures are:

a) Investigation of consumer complaints;

b) Educational programs presented to trade and business associations and personnel of individual companies;

c) Consultations with business executives and attorneys;

d) Review of contracts originated by retailers while making examinations at banks and sales finance companies;

e) Information received from business competitors about industry members not satisfying Truth in Lending requirements.

4. Number and Nature of Violations Discovered During the Year and Their Disposition

Incorrect Terminology or Disclosure Format	69
Incomplete or Inaccurate Disclosures on Otherwise Proper Disclosure Statements	146
Failure to Properly Grant Right of Rescission	50
Total Violations Noted	265

These statistics do not reflect the individual number of cases in which a creditor was deficient in a particular category, but consider as one violation all violations of a certain type by a creditor.

Shortly after taking office on March 1, 1975, Bank Commissioner Lawrence Connell, Jr. instituted a system of dealing with disclosure violations which involves the recommendation to creditors that they provide customers with corrected disclosures, notices of right of rescission or monetary adjustments as applicable, in addition to correcting their procedures. Creditors' acceptance of the recommended procedures and their willingness to voluntarily adjust disclosure procedures or forms has resulted in satisfactory resolution of violations without the need for formal action.

Creditor experience under the civil liability section of the act continues to serve as an effective enforcement tool, leaving creditors readily agreeable to voluntary remedial action.

The increased number of violations during this reporting period has resulted from a deepening of the examination procedure as examiners become more experienced.

5. Creditor-and-Consumer-Oriented Educational Activities

The Governor's State Information Bureau, which was established to provide the residents of this state with a source of information regarding state government, statutory requirements, and a place to direct their complaints, is currently being revised to act primarily as a clearing house for inquiries. When the transition is complete, all incoming calls regarding consumer credit will be directed to the Banking Department for handling. The Consumer Credit Division of the Banking Department continues to receive between fifty and seventy-five calls a week on a direct basis from consumers and creditors. These are utilized to further the department's educational efforts.

The demand for formal consumer and creditor educational programs continues to be modest, although the availability of such programs continues to be emphasized whenever possible.

Listed below are the programs in which department personnel participated:

College Lecture Series	1
Television Question and Answer Program	1
Presentation to Consumer Education Teachers	3
Presentation to Consumers' Council	2
Presentation to Consumer Protection Interns	1
Workshop for Senior Citizens	1
Presentation to Service Club	1
Consumer Education Presentations	10
Creditor Associations	5
Total	15

In addition, both Commissioner Connell and Deputy Commissioner Kay V. Bergin have presented numerous speeches to creditor groups which, while not considered educational programs in the strictest sense, have delineated this department's role in the regulation of consumer credit matters.

The Connecticut Coordinating Council for Consumer Affairs, of which this department is a member, has established a credit counseling service which has recently commenced operation. Its activities should prove to be an excellent source to further consumer and creditor education.

Through the office of Deputy Commissioner Bergin, a booklet is being prepared which is designed to emphasize the rights of women in consumer credit transactions.

6. Number of Professional Personnel Engaged in Truth in Lending Activity

Full Time -	Consumer Credit Division			3
Part Time -	Consumer Credit Division		6	
	Credit Union Division		5	11
		Total		14

Although there has been a reassignment of a full-time Truth in Lending examiner to duties involving part-time Truth in Lending work and the loss of a full-time staff member, neither the number nor the effectiveness of examinations is expected to suffer.

7. Annual Budget for Administering and Enforcing Truth in Lending

July 1, 1975 - June 30, 1976 $159,089

8. State Adoption of Recent Amendments and Interpretations to Regulation Z

Connecticut Public Act No. 75-436, which amends the Connecticut Truth in Lending Act in accordance with the Board's recommendations, became effective June 25, 1975. Copies of this act were sent to the Board of Governors of the Federal Reserve System on June 26, 1975. The Board's staff has recently advised this department that the act's provisions are sufficient to enable us to continue in our exempt status. The amendments to the Connecticut regulations necessary to bring them into conformity with Regulation Z as amended are being drafted so that the regulation-making process may begin as soon as possible.

The promulgation of the exemption procedure and requirements under Fair Credit Billing is being awaited with the expectation that Connecticut will apply for an exemption to complement our existing exemption under Truth in Lending.

Section 36-195-11 of the Connecticut Truth in Lending Regulations provides that all Federal Reserve Board official rulings and interpretations of Regulation Z constitute official interpretations of the Connecticut regulations as well. Consequently, no individual adoption of interpretations is necessary.

9. Assessment of the Extent to Which Compliance is Being Achieved Under State Law

The examinations conducted by this department continue to evidence a high degree of basic compliance on the part of creditors. The primary source of problems among creditors remains the irregular transactions in which some of the more complex concepts must be applied. To the extent that the availability of information concerning credit transactions is a criteria, one would have to assess the Truth in Lending movement as successful in Connecticut, although the public's use of the information required under the law is certainly less than acceptable.

10. Recommendations

It is our belief that consumer credit protection matters are best handled on a local level. Accordingly, it is our intention to move toward obtaining an exemption under the Fair Credit Billing Act when the exemption criteria are published.

We would recommend to the board that it consider delegating enforcement authority over all consumer credit matters to local enforcement authorities. Of particular interest is Equal Credit Opportunity and Fair Credit Practices Regulation. It is believed that local control of such matters will result in enforcement more responsive to the needs of individual consumers than would be possible under Federal enforcement.

November 21, 1975

Lawrence Connell, Jr.
Bank Commissioner
State of Connecticut

APPENDIX 2.—MAINE

JOHN E. QUINN
SUPERINTENDENT

DEPARTMENT OF BUSINESS REGULATION
BUREAU OF CONSUMER PROTECTION
STATE OFFICE BUILDING
AUGUSTA, MAINE 04333
(207) 289-3731

October 14, 1976

Honorable Benjamin S. Rosenthal, Chairman
Commerce, Consumer and Monetary
Affairs Subcommittee
Committee on Government Operations
Rayburn House Office Building
Room B 350-A-B
Washington, D.C. 20515

Dear Congressman Rosenthal:

Thank you for your letter of September 29, 1976. I have set forth my responses to correspond with the order of your inquiries of that date.

1. In my opinion, there is a definite relationship between the Bureau's enforcement policy of non-compliance disclosure and the degree of compliance achieved within the State which has led to the reduction in the number of examiners necessary to enforce Maine's Truth-In-Lending Law. From the beginning of my appointment, I have made an effort to convey to Maine's banking community the fact that the State's Truth-In-Lending enforcement program would be altered substantially during my term as the Superintendent of the Bureau of Consumer Protection.

Specifically, I informed the State's financial institutions that substantive violations of Truth-In-Lending would be disclosed to the borrowers involved — including the disclosure of their right to seek civil penalties under the Truth-In-Lending Law. I also made it clear that my definition of substantive violations would be limited to the failure to properly disclose the annual percentage rate and the finance charge; and, additionally, any violations or technical errors reported in a prior examination which a bank permitted to recur.

With respect to technical compliance with Truth-In-Lending, I have made it clear that our examination staff would be in the banks to assist their personnel in maintaining compliance so long as the bank continued to seek compliance on a good-faith basis. I believe that this enforcement policy has done a great deal to eliminate the aura of "Catch 22" from Truth-In-Lending in Maine.

If the intent of TIL is to permit consumers to shop for credit, then the correct disclosure of the APR and the FINANCE CHARGE are the only tools that are of any particular concern to consumers at this time. I believe it would be an unconscionable practice on the part of the State to expose a bank, or any creditor for that matter, to substantial liability for an obvious error or a mere technical violation of TIL when, in fact, TIL is presently so complicated a maze of regulations and interpretations that creditors in a rural state, such as Maine, are hard pressed to find legal counsel who can render unequivocal advice on many of the questions arising from the law. As an obvious example, I would cite the failure of the Federal Reserve Board to provide a simple reference index for the 1108 public information letters published to date.

I believe our enforcement policies have finally provided the banking community with an easily understood explanation of what is required of a bank under Truth-In-Lending. In so doing, we have eliminated the principle argument utilized by many banks that the law was so complicated and involved that it was impossible to maintain compliance.

We have been using variations of this approach for the past two years. During that time, we have observed a significant increase in the degree of TIL compliance by Maine's financial institutions. A number of banking organizations which had previously been cited by our predecessor, the Bureau of Banks and Banking, for numerous recurring violations are now examined without uncovering a single substantive violation. Larger banking systems which may have required a two-week examination just two years ago, may now be examined in a few days by one examiner.

This is due simply to the fact that the banks themselves have finally instituted internal safeguards and review procedures to prevent TIL violations. These internal procedures could have and should have been instituted years ago. However, the reluctance of our State's Banking Bureau, at that time, to offend the banking industry or to expose any bank to civil liability led our financial institutions to conclude, reasonably enough, that the State's examination for TIL compliance was of no particular consequence. Thus, for six years (from 1969 - 1975) both the Bureau of Banking's Truth-In-Lending examination staff and the number of recurring Truth-In-Lending violations continued to grow. This type of approach failed to provide any solution and was, in fact, rapidly becoming an expensive addition to the problem. This

attitude proved costly to Maine taxpayers who were being required to pay the wages and expenses of the five examiners.

Today, as well as for the past year, we have but one field examiner who is responsible for examining our financial institutions and other major creditors for compliance with both TIL and Maine's Consumer Credit Code. The cost of this examiner is now borne by the banks he examines.

Simply stated, we have provided our financial institutions with a cost-benefit reason for maintaining compliance with TIL. The resulting increase in the degree of compliance has, in turn, allowed the Bureau to reduce its field examination staff.

2. We have made public disclosure of the facts in the cases involving the Saco-Biddeford Savings Institution and the Pepperell Trust Company. I have attached copies of the statements released by this office in connection with these cases as well as relevant press items.

3. With respect to the Pepperell Trust Company, the statements of the Bureau relating to the bank's attempt to unilaterally increase the interest rates of 235 home mortgagors brought an immediate and substantial reaction. The bank, with some prodding by the Attorney General, agreed to rescind the announced increases in the mortgage rates. I believe that an immediate solution to this problem was essential in view of the substantial economic impact that the mortgage increases would have had upon the community. During our interviews of 75 of the borrowers, it became evident that a number of the people whose interest rates had been increased were attempting to secure mortgages at banks other than the Pepperell Trust Company and would, therefore, incur unnecessary and in some cases substantial closing costs. By seeking an immediate rescission of the increases, we hoped to avoid the unnecessary economic burden which would have occurred.

I believe it is safe to say that a number of Maine banks which include a similar demand clause in their mortgages will abstain from this type of unilateral increase in the future unless the borrowers have been fully informed at the time of the closing.

With respect to the Saco-Biddeford Savings Institution, our disclosures to both the borrowers and the public evidently had the effect of informing individuals in the community that this practice had been ongoing for some time. We have recently learned that a class action has

been filed against the Saco-Biddeford Savings Institution on the basis of the findings issued by the Bureau.

Moreover, the public disclosures, in both cases, have put Maine's financial institutions on notice that violations of law or abusive practices committed by a bank will become matters of public knowledge and discussion whenever they are uncovered by the Bureau.

Respectfully,

John E. Quinn
Superintendent

JEQ:cmd
enc.

JOHN E. QUINN
SUPERINTENDENT

DEPARTMENT OF BUSINESS REGULATION
BUREAU OF CONSUMER PROTECTION
STATE OFFICE ANNEX
AUGUSTA, MAINE 04330
(207) 289-3731

In Re: Saco and Biddeford Savings Institution

Findings and Order

An examination of Saco and Biddeford Savings Institution (hereinafter referred to as S-B) was completed by the Bureau examiner on June 1, 1976. On June 21, 1976 the Bureau forwarded notice of hearing to S-B. The hearings, held on July 22nd and August 3rd, were held to determine whether S-B had failed to properly disclose the finance charge under Truth-in-Lending requirements in 347 consumer loans issued by the bank from June 1, 1975 to the date of examination.

The hearings were also held to determine whether, in fact, the officials of S-B had impeded the Bureau's examination of the bank's consumer loan transactions.

I

Truth-in-Lending Violations

The Bureau had charged that the bank had engaged in the practice of disclosing to the consumers only one month's interest as the finance charge in these 345 consumer "demand" loans written since June 1, 1975. The loans in question had been written payable "on demand". Section 4 of subsection 7 of Bureau Regulation #1, Truth-in-Lending, requires the disclosure of the finance charge for demand loans as if the loan had a six-month maturity unless the loan is alternatively payable upon a stated maturity, in which case the bank must use the stated maturity to compute the finance charge.

In all of these consumer loans, the bank had chosen to disclose only one month's finance charge. In 193 loans the maturity date was six-months or greater. This type of Truth-in-Lending violation had been uncovered by State examiners at S-B in both the 1970 and 1972 examinations. Bank officials had been put on notice of this practice upon receipt of the Bureau of Banks and Banking examination reports for 1970 and 1972.

It appears that S-B had discontinued this practice following the 1972 examination. However, the bank had renewed the practice in essentially all

of its consumer loan transactions occuring after January 1, 1975. It is beyond dispute, based upon the exhibits and the testimony of Mr. William Deans, Vice-President of the Saco and Biddeford Savings Institution, that the practice of disclosing only one-month's finance charge on consumer demand loans was known by bank officials to be prohibited under Maine's Truth-in-Lending laws.

It is also clear that the bank had failed to institute internal safeguards to eliminate this prohibited practice as cited in the 1970 and 1972 examinations. The bank through its legal counsel has chosen not to offer any legal or factual argument to the Bureau's charges other than Mr. Dean's testimony that he and his staff were unable to understand how or why the practice of disclosing only one month's finance charge had been reinstated in 1975.

The Bureau was informed at the hearing that subsequent to notification by the Bureau of these alleged violations, S-B had forwarded corrected disclosure statements to the 345 borrowers. Additionally, the bank failed to disclose the annual percentage rate in two consumer loans. The bank did not contest the Bureau's allegation that these two loans were in violation of the State's Truth-in-Lending law. (See 1a and 1c in the report of examination.)

Attempt to Impede the Bureau's Investigation

During the course of the Bureau's examination of the records of the Saco and Biddeford Savings Institution, the Bureau examiner proceeded to make copies of the note and disclosure statement for those demand loans which appeared to be in violation of the Truth-in-Lending disclosure requirements. During this process the examiner engaged in a discussion with Mr. William Deans concerning the nature of the alleged violations. Shortly thereafter, Mr. Deans returned with his legal counsel. The bank's legal counsel proceeded to inform the Bureau examiner that he would not be allowed to make any further copies of any bank documents.

The Bureau examiner proceeded to review the bank's records and to cite the remainder of the 347 alleged violations. Neither Mr. Deans nor the legal counsel for the bank attempted to restrict the information gathered by the examiner.

At the hearing Mr. Deans testified that he had been concerned that release of these documents might jeopardize the confidential nature of the material contained therein. Mr. Deans admitted under examination, however, that the very information which he sought to protect may have been freely copied from the documents by the examiner.

Counsel for the bank had advised Mr. Deans that copies of the material should not be allowed outside the bank without a subpoena. Counsel did not, however, seek to limit the type of information which might be copied from the documents themselves by the Bureau examiner.

As an integral part of the examination report, the examiner was unable to produce copies of the original documents which were the subject of the investigation. Copies of the documents were subpoened to the hearing by the Bureau and have been made a part of the record. By agreement of the parties, these documents will remain under seal until released by Court order. The records will remain available to the Bureau staff in their internal deliberations upon this case.

This matter is of particular concern to the Bureau in view of the fact that if this practice were allowed to continue, it would be possible for an unscrupulous creditor to alter such documents in an attempt to avoid prosecution for violation of our consumer credit statutes. Creditors are well aware of the fact that it would be difficult, if not impossible, to recover these documents in their original form from a search of consumer's records. Thus, the only documents available to a court might be the altered documents in the possession of the creditor.

In the event that the Saco and Biddeford Savings Institution is unwilling to enter into an Assurance of Discontinuance with the Bureau within the next 30 days, I shall recommend to the Attorney General that an injunctive action be initiated against the Saco and Biddeford Savings Institution to prevent a reoccurence of this practice.

Accordingly, it is ordered that the 347 loan transactions cited in sections 1 and 3-C of the Bureau's report of examination, dated June 1, 1976 are hereby declared to have been in violation of Maine's Truth-in-Lending law due to the bank's failure or refusal to properly disclose the finance charge to consumers on these loan transactions. It is further ordered that the Bureau staff notify the 347 borrowers of these findings and of their right to pursue certain civil penalties arising from such violations of law.

August 20, 1976

John E. Quinn
Superintendent
Bureau of Consumer Protection

MAINE
TRUTH IN LENDING COMPLIANCE REPORT
TO THE
COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE
SEPTEMBER 15, 1976

STATE - OF - MAINE

Report Of Truth In Lending Examinations
And Findings Relating To Banks And Savings
& Loan Associations For The Period Beginning
November 1, 1975 Thru August 31, 1976.

LEGEND:

"LOANS - REVIEWED"

R. E. ..... Real Estate Loans
INST. ..... Installment Loans (Includes Dealer Paper)
T & D. ..... Time & Demand Loans

"VIOLATIONS"

1. ..... Violations In Transactions Subject To Right Of Rescission.
2. ..... Incomplete Disclosure Statements.
3. ..... Incorrect Disclosure Statement Forms.
4. ..... Failure To Provide Customers With A Disclosure Statement.
5. ..... Failure To Maintain Disclosure Records.
6. ..... Incomplete Disclosures - Open End Credit.
7. ..... Refund Method Inconsistent With That Disclosed.
8. ..... Disclosures Inconsistent With The Provisions Of The Notes.
9. ..... Incorrect Disclosure Of The Annual Percentage Rate.
10. ..... Failure To Provide Customer With Disclosure Before Consummation Of The Transaction.
11. ..... Incorrect Disclosure Statements (Other Than Annual Percentage Rate).

FINANCIAL INSTITUTIONS EXAMINED FOR PERIOD BEGINNING NOVEMBER 1, 1975 THRU AUGUST 31, 1976

FIRM	FDIC OR FSLIC NUMBER	ASSETS IN THOUSANDS $	LOANS REVIEWED R.E.	LOANS REVIEWED INST	LOANS REVIEWED T&D	VIOLATIONS CITED 1	2	3	4	5	6	7	8	9	10	11	TOTALS
[redacted]	[redacted]	[redacted]	11	295	28				1					3		1	5
[redacted]	[redacted]	[redacted]	10	174	49												0
[redacted]	[redacted]	[redacted]	12	238	91	1	1									3	5
[redacted]	[redacted]	[redacted]	13	310	42	13			2				1	1			17
[redacted]	[redacted]	[redacted]	2	2215	51		3							2		11	6
[redacted]	[redacted]	[redacted]	15	211	56	1	2						1			3	7
[redacted]	[redacted]	[redacted]	17	181	20		7						1	3		3	14
[redacted]	[redacted]	[redacted]	21	141	123	21	4							2		7	34
[redacted]	[redacted]	[redacted]	34	298	118	2				1				1		8	12
[redacted]	[redacted]	[redacted]	24	117	25												0
[redacted]	[redacted]	[redacted]	48	456	279									5		8	13
[redacted]	[redacted]	[redacted]	15	52		1		all inst.								1	2
[redacted]	[redacted]	[redacted]	48	222	193		1							5		1	7
[redacted]	[redacted]	[redacted]	7	209	65		6							1		5	12

FINANCIAL INSTITUTIONS EXAMINED FOR PERIOD BEGINNING NOVEMBER 1, 1975 THRU AUGUST 31, 1976

TYPE	FDIC OR FSLIC NUMBER	ASSETS IN THOUSANDS $	LOANS REVIEWED R.E.	LOANS REVIEWED INST	LOANS REVIEWED T&D	VIOLATIONS CITED 1	2	3	4	5	6	7	8	9	10	11	TOTALS
[redacted]	[redacted]	[redacted]	45	618	275	3	2						1	3		9	18
			21	127	141	2	1							4		1	8
			12	281	149	1								2		2	5
			18	12	7		1						1	13			15
			26	2123	54	43	28						9	6		3	89
			12	49	51												0
			12	174	81									1		11	12
			10	345	58												0
			15	40	51		54										54
			20	165	41	4	16			2							22
			33	1025	475	1	5		2					10		1	19
			13	386	186		13							2		2	17
			20	236	81	2											2
			20	280	90	2	8							1		2	13

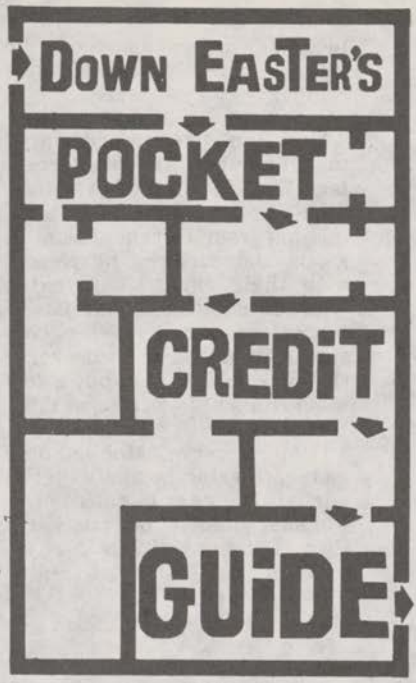
FINANCIAL INSTITUTIONS EXAMINED FOR PERIOD BEGINNING NOVEMBER 1, 1975 THRU AUGUST 31, 1976

FIRM	FDIC OR FSLIC NUMBER	ASSETS IN THOUSANDS $	LOANS REVIEWED R.E.	INST	TAD	VIOLATIONS CITED 1	2	3	4	5	6	7	8	9	10	11	TOTALS
[redacted]	[redacted]	[redacted]	20	289	91		4										4
			15	400	190		3		1							349	353
			18	250	120	3	5									1	9
			19	200	110		2							1			3
			15	90	39		22										22
			15	125	91								1			7	8
			18	200	46								2			21	23
			15	175	21		2							5			7
			19	175	27		5									4	9
					31												0
			15	36	48		3									1	4
			20	106	61		8										8

FLORIDA INSTITUTIONS EXAMINED FOR PERIOD BEGINNING NOVEMBER 1, 1975 THRU AUGUST 31, 1976

FIRM	FDIC OR FSLIC NUMBER	ASSETS IN THOUSANDS $	LOANS REVIEWED R.E.	LOANS REVIEWED INST	LOANS REVIEWED TOT	VIOLATIONS CITED 1	2	3	4	5	6	7	8	9	10	11	TOTALS
[redacted]					114											1	1
					41											1	1
			2		72	1							2				3
			5	184	26												0
			14	134	41											3	3
			10	122	24												0
			14	214	39		1							1			2
			12	18	62											2	2
			17	192	97											3	3

BANK



DOWN EASTER'S
POCKET CREDIT GUIDE

Down Easters have a reputation of being good "horse-traders," yet when it comes to credit, they spend millions of dollars each year in unnecessary interest charges. Their "horse-sense" has been "buffaloed" by the complexities of credit. This wallet size guide is designed to put you back behind the reins. By using it, you won't *apply* for credit with your hat in your hand, you'll *bargain* for credit with an eye toward saving money.

State of Maine
Bureau of
Consumer Protection
Augusta, Maine 04330
Tel: 289-3731

SHOPPING FOR CREDIT

Imagine that you need to borrow $4000 for a new car. If financed through a car dealer, you could pay as much as 13%. But the same amount could probably be obtained through a bank or credit union at, say, 10%.

By using one of the charts provided.

Compare: 13%, for 3 years, vs. 10%. The following was taken from **Table I** pages 11 and 14.

13% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
4,000	357	287	190	564	135	852	107	1,151

10% Annual Percentage Rate

Amount	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
4,000	352	220	185	440	129	647	101	870

$852 vs. $647;
means a savings of $205

Let's say you need to borrow $10,000 for a mobile home. Compare the total finance charge at 13%, for 10 years, vs. 12% (Use the second set of tables, which have been designed for longer term loans.)

$7918 vs. $7218:
means a savings of $700

Before signing the "dotted-line," call several lenders to find out about their **Annual Percentage Rate**. Then use this Guide to compare the costs. You'll notice that the lower the **Annual Percentage Rate**, the lower the total Finance Charge, and the lower the monthly payments. You'll be able to make an unhurried decision at home, away from the busy loan officer, or salesperson.

CREDIT SHOPPING TIPS

$ Put some pressure on the lender. Many lenders think that consumers are only interested in how much the monthly payments are. Let them know you're a **Credit Shopper.** Your first question should be, "What's the **Annual Percentage Rate**?" Those who never ask usually end up paying the long dollar.

$ Look for "simple interest" loans. You'll pay no more nor less than you should. And if you make some payments ahead of schedule, you can reduce the total finance charge.

$ Explore all sources of credit. Loans secured by the cash surrender value of insurance policies, and loans secured by savings or share accounts are usually the cheapest. Insurance policy loans can be obtained from your insurance company; call your agent.

$ Most Bank Credit Cards carry the maximum **Annual Percentage Rate** the law allows, 18%. Additionally, Banks get a commission from merchants on all goods and services purchased with their cards. This extra charge, usually 2-5%, is, of course, passed on to the consumer. You'll need to do some shopping to find one, but a few Maine Banks offer cards at 12%.

$ Dealer reserve: Mobile-home and car-dealers usually get a certain percentage of the Finance Charge on contracts they arrange. This "commission" is called a Dealer Reserve. You can avoid paying such commissions by going directly to a Bank, Credit Union, or Finance Company to arrange for your own financing.

$ The lower the Annual Percentage Rate, the more you can afford to buy on credit. A $2000 loan for 3 years at 20% costs $74 per month. But for the same payment and length of time, you can borrow $2300 at 10%; that's $300 more! A $10,000 loan for 15 years at 14% costs $133 per month. But, for the same payment and length of time, you can borrow $11,100 at 12%; that's $1100 more! *Credit Shopping might mean that you can afford those little extras that seemed just out of reach before."*

$ Many lenders offer package deals such as, "free" gifts if you take out a loan, lower rates in return for opening a checking or savings account, or "free" life insurance. A wise credit shopper looks at the **total cost.** How much is the "free" gift worth, are the checking and savings accounts **competitive,** is the life insurance really free?

INDEX TO TABLES

Table I 

use for auto loans, furniture & appliance loans etc.

Table II 

use for mobile home loans, home improvement loans etc.

Table III 

use for mortgages

Notes:

1. All figures have been rounded to the nearest dollar.
2. Amounts within the same column may be added together to find payments and finance charges for loan amounts not listed.

Table I 

8% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	4	5	9	3	13	2	22
500	44	22	21	43	16	64	12	86
1,000	87	44	45	86	31	128	24	172
1,500	130	66	68	128	47	192	37	258
2,000	174	88	90	171	63	256	49	344
2,500	217	110	113	214	78	321	61	430
3,000	261	132	136	257	94	384	73	516
3,500	304	154	158	299	110	448	85	602
4,000	348	176	181	342	125	513	98	688
4,500	391	197	204	385	141	577	110	773
5,000	435	219	226	427	157	640	122	859
5,500	478	241	249	470	172	705	134	945
6,000	522	263	271	513	188	769	146	1,031

8½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	5	5	9	3	14	2	19
500	44	23	23	46	16	68	12	92
1,000	87	47	45	91	32	137	25	183
1,500	131	70	68	68	13747	205	37	275
2,000	174	93	91	182	63	273	49	366
2,500	218	117	114	227	79	341	62	458
3,000	262	140	136	273	95	410	74	550
3,500	305	163	159	318	110	478	86	641
4,000	349	187	182	364	126	546	99	733
4,500	392	210	205	409	142	614	111	824
5,000	436	233	227	455	158	682	123	916
5,500	480	257	250	500	174	751	136	1,007
6,000	523	280	273	546	189	819	148	1,099

Table I 

9% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	5	5	10	3	14	2	20
500	44	25	23	48	16	72	12	98
1,000	87	50	46	97	32	145	25	195
1,500	131	74	69	145	48	217	37	292
2,000	175	99	91	193	64	290	50	389
2,500	219	124	114	241	80	362	62	487
3,000	262	148	137	289	95	434	75	584
3,500	306	173	160	338	111	507	87	681
4,000	350	198	183	386	127	579	100	778
4,500	394	222	206	434	143	652	112	876
5,000	437	247	228	482	159	724	124	973
5,500	481	272	251	530	175	796	137	1,070
6,000	525	297	274	579	191	869	149	1,167

9½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	5	5	10	3	16	3	21
500	44	26	23	51	16	77	13	103
1,000	88	52	46	102	32	153	25	206
1,500	132	78	69	153	48	230	38	309
2,000	175	104	92	204	64	307	50	412
2,500	219	131	115	255	80	383	63	515
3,000	263	157	138	306	96	460	75	618
3,500	307	183	161	357	112	536	88	721
4,000	351	209	184	408	128	613	101	824
4,500	395	235	207	459	144	689	113	927
5,000	438	261	230	510	160	766	126	1,030
5,500	482	287	253	560	176	843	138	1 133
6,000	526	313	275	612	192	919	151	1,236

Table I 

10% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	6	5	11	3	16	3	22
500	44	28	23	54	16	81	13	109
1,000	88	55	46	108	32	162	25	218
1,500	132	83	69	161	48	243	38	326
2,000	176	110	92	215	65	323	51	435
2,500	220	137	115	269	81	404	63	544
3,000	264	165	138	323	97	485	76	652
3,500	308	193	162	376	113	566	89	761
4,000	352	220	185	430	129	647	101	870
4,500	396	248	208	484	145	728	114	979
5,000	440	275	231	538	161	808	127	1,087
5,500	484	302	254	591	177	889	140	1,196
6,000	528	330	277	645	194	970	152	1,305

10½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	6	5	11	3	17	3	23
500	44	29	23	57	16	85	13	115
1,000	88	58	46	113	33	170	26	229
1,500	132	88	70	170	49	260	39	350
2,000	176	116	93	226	65	340	51	229
2,500	221	146	116	284	82	434	64	584
3,000	264	173	139	339	98	510	77	687
3,500	309	204	162	398	114	608	90	818
4,000	353	231	186	452	130	680	102	916
4,500	397	263	208	511	146	781	116	1,051
5,000	441	289	232	565	163	851	128	1,145
5,500	485	321	255	625	179	955	141	1,285
6,000	529	347	278	678	195	1,021	154	1,374

Table I

11% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	6	5	12	3	18	3	24
500	44	30	23	59	16	89	13	121
1,000	88	61	47	119	33	179	26	241
1,500	133	91	70	178	49	268	39	361
2,000	177	121	93	237	65	357	52	482
2,500	221	152	117	296	82	447	65	602
3,000	265	182	140	356	98	536	78	722
3,500	309	212	163	415	115	625	90	842
4,000	354	242	186	475	131	715	103	963
4,500	398	273	210	534	147	804	116	1,083
5,000	442	303	233	593	164	893	129	1,203
5,500	486	333	256	652	180	983	142	1,324
6,000	530	363	280	712	196	1,072	155	1,444

11½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	6	5	13	3	19	3	25
500	44	32	23	62	16	94	13	126
1,000	89	63	47	124	33	187	26	252
1,500	133	97	70	188	50	282	39	378
2,000	177	127	94	249	66	375	52	504
2,500	222	161	117	314	83	470	65	632
3,000	266	190	141	373	99	561	78	757
3,500	310	225	164	440	116	658	91	885
4,000	354	254	187	497	132	749	104	1,009
4,500	399	290	211	565	149	846	117	1,138
5,000	443	317	234	621	165	936	130	1,262
5,500	488	354	258	691	182	1,034	144	1,390
6,000	532	380	281	745	198	1,123	157	1,514

Table I

12% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	7	5	5	3	20	3	27
500	44	33	24	65	17	98	13	132
1,000	89	66	47	130	33	196	26	264
1,500	133	99	71	195	50	294	40	396
2,000	178	132	94	260	66	391	53	528
2,500	222	166	118	325	83	489	66	660
3,000	267	199	141	390	100	587	79	792
3,500	311	232	165	454	116	685	92	924
4,000	355	265	188	519	133	783	105	1,056
4,500	400	298	212	584	149	881	119	1,188
5,000	444	331	235	649	166	979	132	1,320
5,500	489	364	259	714	183	1,076	145	1,452
6,000	533	397	282	779	199	1,174	158	1,584

12½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	7	5	14	3	21	3	28
500	45	35	24	68	17	102	13	138
1,000	89	69	47	135	33	205	27	276
1,500	134	104	71	206	50	309	40	415
2,000	178	138	95	271	67	409	53	552
2,500	223	173	119	344	84	515	67	692
3,000	267	207	142	406	100	613	80	828
3,500	312	242	166	482	117	721	93	967
4,000	356	276	189	542	134	818	106	1,103
4,500	401	311	213	619	151	927	120	1,246
5,000	445	345	237	677	167	1,022	133	1,379
5,500	490	381	261	757	184	1,133	146	1,522
6,000	535	414	284	812	201	1,226	159	1,655

Table I

13% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	7	5	14	3	21	3	29
500	45	36	24	71	17	107	13	144
1,000	89	72	48	141	34	213	27	288
1,500	134	109	71	214	51	320	40	437
2,000	179	144	95	282	67	426	54	576
2,500	224	182	119	356	84	533	67	728
3,000	268	216	143	423	101	639	80	864
3,500	313	255	167	499	118	746	94	1,019
4,000	357	287	190	564	135	852	107	1,151
4,500	402	327	214	641	152	959	121	1,310
5,000	447	359	238	705	168	1,065	134	1,439
5,500	492	400	262	783	185	1,173	148	1,602
6,000	536	431	285	846	202	1 278	161	1,727

13½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	8	5	15	3	22	3	30
500	45	38	24	73	17	111	14	150
1,000	90	75	48	147	34	222	27	300
1,500	134	113	72	221	51	336	41	451
2,000	179	149	96	293	68	444	54	600
2,500	224	188	120	368	85	560	68	752
3,000	269	224	143	440	102	665	81	899
3,500	314	263	167	515	119	784	95	1,053
4,000	358	299	191	587	136	887	108	1,199
4,500	403	338	215	662	153	1,008	122	1,354
5,000	448	373	239	733	170	1,108	135	1,499
5,500	493	414	263	810	187	1,232	149	1,654
6,000	537	448	287	880	204	1,330	162	1,798

Table I

14% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	8	5	15	3	23	3	32
500	45	39	24	76	17	115	14	156
1,000	90	77	48	152	34	230	27	312
1,500	135	116	72	232	51	347	41	473
2,000	180	155	96	305	68	461	55	624
2,500	225	194	120	386	86	578	69	788
3,000	269	232	144	457	103	691	82	935
3,500	314	272	168	540	120	809	96	1,103
4,000	359	310	192	609	137	922	109	1,247
4,500	404	349	216	695	154	1,040	123	1,418
5,000	449	387	240	762	171	1,152	137	1,559
5,500	494	427	265	849	188	1,272	151	1,734
6,000	539	465	288	914	205	1,383	164	1,870

14½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	8	5	16	3	24	3	32
500	45	40	24	79	17	120	14	162
1,000	90	80	48	158	34	239	28	324
1,500	135	122	72	239	52	363	41	487
2,000	180	161	97	316	69	479	55	648
2,500	225	203	121	398	86	605	69	812
3,000	270	241	145	474	103	718	83	972
3,500	315	284	169	557	121	847	97	1,137
4,000	360	321	193	632	138	957	110	1,285
4,500	405	353	217	716	155	1,089	124	1,462
5,000	450	401	241	790	172	1,196	138	1,619
5,500	496	447	266	876	190	1,331	152	1,786
6,000	540	482	290	948	207	1,435	165	1,943

Table I

15% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	8	5	16	3	25	3	34
500	45	42	24	82	17	124	14	168
1,000	90	83	49	164	35	248	28	336
1,500	135	125	73	246	52	374	42	509
2,000	181	166	97	328	69	496	56	672
2,500	226	209	125	410	87	623	70	848
3,000	271	249	145	491	104	744	84	1,008
3,500	316	293	170	574	121	872	98	1,187
4,000	361	332	194	655	139	992	111	1,344
4,500	406	376	218	738	156	1,121	126	1,526
5,000	451	416	242	819	173	1,240	139	1,680
5,500	497	460	267	902	191	1,371	153	1,865
6,000	542	499	291	982	208	1,488	167	2,016

15½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	9	5	17	4	26	3	35
500	45	43	24	85	17	129	14	174
1,000	91	86	49	170	35	257	28	348
1,500	136	129	73	257	53	390	42	523
2,000	181	172	97	339	70	514	56	696
2,500	226	215	122	428	88	650	70	872
3,000	271	258	146	508	105	771	84	1,044
3,500	317	301	171	599	123	910	98	1,221
4,000	362	344	195	678	140	1,027	112	1,392
4,500	407	387	230	770	158	1,170	126	1,570
5,000	452	430	244	847	175	1,284	140	1,741
5,500	498	473	268	942	193	1,430	155	1,918
6,000	543	516	292	1,016	209	1,541	167	2,088

Table I

16% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	9	5	18	4	27	3	36
500	45	44	24	88	18	133	14	181
1,000	91	89	49	175	35	266	28	361
1,500	136	134	74	264	53	401	43	545
2,000	181	178	98	350	70	532	57	721
2,500	227	224	123	440	88	668	71	908
3,000	272	266	147	525	105	797	85	1,081
3,500	318	314	172	616	123	935	99	1,271
4,000	363	355	196	701	141	1,063	113	1,442
4,500	409	403	221	792	158	1,202	128	1,634
5,000	454	444	245	876	176	1,328	142	1,802
5,500	499	493	270	968	194	1,470	156	1,997
6,000	544	532	294	1,051	211	1,594	170	2,162

16½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	9	5	18	4	27	3	37
500	46	46	25	90	18	137	14	186
1,000	91	92	49	181	35	274	29	373
1,500	137	138	74	271	53	412	43	559
2,000	182	184	98	362	71	549	57	746
2,500	228	230	123	452	89	686	72	932
3,000	273	276	148	542	106	823	86	1,118
3,500	319	322	172	633	124	960	100	1,305
4,000	364	368	197	723	142	1,098	114	1,491
4,500	410	414	221	814	159	1,235	129	1,678
5,000	455	460	246	904	177	1,372	143	1,864
5,500	501	506	271	994	195	1,509	157	2,050
6,000	546	552	295	1,085	212	1,646	172	2,237

Table I

17% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	10	5	19	4	29	3	39
500	46	47	25	94	18	142	14	193
1,000	91	95	49	187	36	284	29	385
1,500	137	143	74	282	54	428	43	581
2,000	182	189	99	373	71	567	58	771
2,500	228	239	124	470	89	713	72	968
3,000	274	283	148	560	107	851	87	1,155
3,500	320	335	173	658	125	998	101	1,355
4,000	365	378	198	746	143	1,134	115	1,541
4,500	411	430	223	846	161	1,283	130	1,742
5,000	456	472	247	933	178	1,418	144	1,925
5,500	502	526	272	1,034	196	1,569	159	2,130
6,000	547	567	297	1,120	214	1,701	173	2,311

17½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	10	5	19	4	29	3	40
500	46	48	25	96	18	146	15	198
1,000	91	97	50	193	36	292	29	397
1,500	137	145	75	289	54	439	44	595
2,000	183	194	99	386	72	585	58	794
2,500	229	242	124	482	90	731	73	992
3,000	274	290	149	578	108	877	87	1,190
3,500	320	339	174	675	126	1,023	102	1,389
4,000	366	387	199	771	144	1,170	116	1,587
4,500	411	436	224	868	162	1,316	131	1,885
5,000	457	484	249	964	180	1,462	146	1,984
5,500	503	532	273	1,060	197	1,608	160	2,182
6,000	548	581	298	1,157	215	1,754	175	2,381

Table I

18% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	10	5	20	4	30	3	41
500	46	50	25	99	18	151	15	205
1,000	92	100	50	198	36	302	29	410
1,500	138	151	75	300	54	455	44	617
2,000	183	200	100	396	72	603	59	820
2,500	229	251	125	500	91	758	74	1,028
3,000	275	300	150	595	108	905	88	1,230
3,500	321	351	175	700	127	1,061	103	1,439
4,000	367	401	200	793	145	1,206	118	1,640
4,500	413	452	225	900	163	1,364	132	1,850
5,000	458	501	250	991	181	1,508	147	2,050
5,500	504	552	275	1,100	199	1,667	162	2,262
6,000	550	601	300	1,189	217	1,809	176	1,460

18½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	10	5	20	4	31	3	42
500	46	51	25	102	18	155	15	210
1,000	92	103	50	205	36	310	30	421
1,500	138	154	75	307	55	466	44	631
2,000	184	206	100	410	73	621	59	842
2,500	230	257	126	512	91	776	74	1,052
3,000	276	308	151	614	109	931	89	1,262
3,500	322	360	176	717	127	1,086	104	1,473
4,000	368	411	201	819	146	1,242	118	1,683
4,500	414	463	226	922	164	1,397	133	1,894
5,000	460	514	251	1,024	182	1,552	148	2,104
5,500	505	565	276	1,126	200	1,707	163	2,314
6,000	551	617	301	1,229	218	1,862	178	2,525

Table I

19% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	11	5	21	4	32	3	44
500	46	53	25	105	18	161	15	118
1,000	92	106	50	210	37	321	30	435
1,500	138	160	76	314	55	482	45	653
2,000	184	213	101	419	73	642	60	870
2,500	231	266	126	524	92	803	75	1,088
3,000	277	319	151	629	110	964	90	1,306
3,500	323	372	176	734	128	1,124	105	1,523
4,000	369	426	202	838	147	1,285	120	1,741
4,500	415	479	227	943	165	1,445	135	1,958
5,000	461	532	252	1,048	184	1,606	150	2,176
5,500	507	585	277	1,153	202	1,766	164	2,393
6,000	553	638	302	1,258	220	1,927	179	2,611

19½% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	11	5	22	4	33	3	45
500	46	54	25	108	18	164	15	225
1,000	92	109	51	217	37	328	30	450
1,500	139	163	76	325	55	493	45	674
2,000	185	218	101	434	74	657	60	899
2,500	231	272	127	542	92	821	76	1,124
3,000	277	326	152	650	111	985	91	1,349
3,500	323	381	177	759	129	1,149	106	1,574
4,000	370	435	203	867	148	1,314	121	1,798
4,500	416	490	228	976	166	1,478	136	2,023
5,000	462	544	254	1,084	185	1,642	151	2,248
5,500	508	598	279	1,192	203	1,806	166	2,473
6,000	554	653	304	1,301	221	1,970	181	2,698

Table I

20% Annual Percentage Rate

Amount Financed	1 YEAR		2 YEARS		3 YEARS		4 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	9	11	6	22	4	34	3	46
500	46	56	25	111	19	170	15	230
1,000	93	111	51	222	37	339	30	459
1,500	139	167	76	332	56	509	46	689
2,000	185	222	102	443	74	678	61	918
2,500	232	278	127	554	93	848	76	1,148
3,000	278	334	153	665	112	1,018	91	1,378
3,500	324	389	178	776	130	1,187	106	1,607
4,000	370	445	204	886	149	1,357	122	1,837
4,500	417	500	229	997	167	1,526	137	2,066
5,000	463	556	255	1,108	186	1,696	152	2,296
5,500	509	612	280	1,219	205	1,866	167	2,526
6,000	556	667	305	1,330	223	2,035	182	2,755

Table II

9% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	1	41	1	52	1	64	1	84
1,000	15	407	13	520	11	640	10	827
5,000	73	2,033	63	2,601	57	3,195	51	4,130
10,000	147	4,065	127	5,202	114	6,389	101	8,257
15,000	220	6,097	190	7,802	171	9,582	152	12,385
20,000	293	8,129	253	10,403	228	12,776	203	16,515

9½% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	44	1	56	1	68	1	89
1,000	15	432	13	553	12	680	10	881
5,000	75	2,158	65	2,764	58	3,398	52	4,400
10,000	149	4,315	129	5,528	117	6,796	104	8,797
15,000	224	6,472	194	8,292	175	10,194	157	13,195
20,000	298	8,629	259	11,056	233	13,592	209	17,593

10% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	46	1	50	1	73	1	94
1,000	15	457	13	586	12	722	11	935
5,000	76	2,284	66	2,930	60	3,605	54	4,673
10,000	152	4,568	132	5,859	120	7,209	107	9,345
15,000	228	6,852	198	8,788	179	10,815	161	14,016
20,000	303	9,135	264	11,717	239	14,419	215	18,687

Table II

10½% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	49	1	62	1	77	1	94
1,000	15	483	14	620	12	764	11	940
5,000	77	2,412	67	3,098	61	3,814	54	4,697
10,000	154	4,823	135	6,193	122	7,628	108	9,391
15,000	232	7,235	202	9,289	184	11,443	162	14,086
20,000	309	9,646	270	12,384	245	15,256	215	18,781

11% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	52	1	66	1	81	1	105
1,000	16	508	14	654	13	806	11	1,047
5,000	79	2,541	69	3,266	63	4,026	57	5,229
10,000	157	5,081	138	6,531	125	8,052	114	10,459
15,000	236	7,620	207	9,796	188	12,078	170	15,688
20,000	314	10,160	276	13,061	251	16,104	227	20,918

11½% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	54	1	69	1	86	1	111
1,000	16	534	14	687	13	849	12	1,104
5,000	80	2,670	70	3,436	64	4,240	58	5,514
10,000	160	5,341	141	6,872	128	8,481	117	11,028
15,000	240	8,011	211	10,308	193	12,720	175	16,541
20,000	320	10,681	281	13,744	257	16,960	234	22,055

Table II

12% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	56	1	73	1	90	1	118
1,000	16	561	14	722	13	892	12	1,162
5,000	81	2,802	72	3,609	66	4,458	60	5,802
10,000	163	5,603	143	7,218	131	8,914	120	11,604
15,000	244	8,405	215	10,825	197	13,371	180	17,405
20,000	325	11,206	287	14,434	263	17,827	240	23,207

12½% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	59	1	76	1	94	1	123
1,000	17	587	15	757	13	936	12	1,219
5,000	83	2,934	73	3,783	67	4,677	62	6,093
10,000	165	5,868	146	7,566	134	9,352	123	12,187
15,000	248	8,802	220	11,348	202	14,028	185	18,278
20,000	331	11,736	293	15,131	269	18,704	247	24,372

13% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	62	2	80	1	99	1	129
1,000	17	614	15	793	14	980	13	1,279
5,000	84	3,068	75	3,959	69	4,899	63	6,389
10,000	168	6,136	149	7,918	137	9,796	127	12,775
15,000	252	9,203	224	11,876	206	14,693	190	19,162
20,000	336	12,270	299	15,836	275	19,590	253	25,549

Table II

13½% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	64	2	84	1	103	1	134
1,000	17	641	15	828	14	1,025	13	1,338
5,000	85	3,203	76	4,137	70	5,122	65	6,686
10,000	171	6,405	152	8,274	141	10,244	130	13,371
15,000	256	9,608	228	12,410	211	15,364	195	20,055
20,000	342	12,810	305	16,546	281	20,486	260	26,741

14% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	67	2	87	1	107	1	141
1,000	17	668	16	864	14	1,071	13	1,398
5,000	87	3,339	78	4,317	72	5,348	67	6,986
10,000	174	6,677	155	8,632	144	10,696	133	13,972
15,000	261	10,016	233	12,948	216	16,042	200	20,959
20,000	347	13,354	311	17,265	287	21,390	266	27,943

14½% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	70	2	91	1	112	1	147
1,000	18	695	16	900	15	1,115	14	1,459
5,000	88	3,476	79	4,498	73	5,577	68	7,290
10,000	177	6,952	158	8,995	147	11,152	137	14,581
15,000	265	10,427	237	13,493	220	16,728	205	21,869
20,000	353	13,902	317	17,990	294	22,303	273	29,160

Table II

15% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	73	2	94	1	117	1	152
1,000	18	723	16	937	15	1,161	14	1,520
5,000	90	3,614	81	4,680	75	5,807	70	6,296
10,000	179	7,228	161	9,361	150	11,613	140	15,193
15,000	269	10,842	242	14,041	225	17,420	210	22,789
20,000	359	14,455	323	18,720	300	23,226	280	30,386

15½% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	76	2	98	2	122	1	159
1,000	18	751	16	974	15	1,209	14	1,581
5,000	91	3,753	82	4,865	77	6,040	72	7,906
10,000	182	7,507	164	9,730	153	12,080	143	15,812
15,000	274	11,260	247	14,594	230	18,119	215	23,718
20,000	365	15,013	329	19,460	307	24,158	287	31,624

16% Annual Percentage Rate

Amount Financed	8 YEARS		10 YEARS		12 YEARS		15 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$ 100	2	79	2	102	2	126	1	165
1,000	19	779	17	1,011	16	1,255	15	1,644
5,000	93	3,894	84	5,051	78	6,275	73	8,219
10,000	185	7,788	168	10,102	157	12,549	147	16,438
15,000	278	11,682	251	15,152	235	18,823	220	24,656
20,000	371	15,576	335	20,204	313	25,096	294	32,875

Table III

6% Annual Percentage Rate

Amount Financed	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$1,000	8	519	7	721	6	935	6	1,160
10,000	84	5,190	72	7,196	64	9,332	60	11,586
15,000	127	7,784	107	10,793	97	13,995	90	17,378
20,000	169	10,380	143	14,390	129	18,661	120	23,171
25,000	211	12,975	179	17,986	161	23,324	150	28,960
30,000	253	15,569	215	21,583	193	27,990	180	34,753
35,000	295	18,163	251	25,182	226	32,563	210	40,546
40,000	388	20,759	287	28,779	258	37,319	240	46,339
45,000	380	23,353	322	32,376	290	41,982	270	52,128
50,000	422	25,947	358	35,973	322	46,648	300	57,921

6½% Annual Percentage Rate

Amount Financed	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$1,000	9	570	7	790	7	1,028	6	1,279
10,000	87	5,682	75	7,894	68	10,259	63	12,756
15,000	131	8,521	112	11,842	101	15,387	95	19,135
20,000	174	11,361	149	15,789	135	20,515	126	25,511
25,000	218	14,200	186	19,736	169	25,643	158	31,887
30,000	261	17,041	224	23,683	203	30,771	190	39,643
35,000	305	19,880	261	27,630	236	35,899	221	44,643
40,000	348	22,721	298	31,575	270	41,027	253	51,019
45,000	392	25,560	336	35,522	304	45,155	284	57,398
50,000	436	28,401	373	39,470	338	51,283	316	53,774

Table III

7% Annual Percentage Rate

Amount Financed	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$1,000	9	618	8	862	7	1,121	7	1,398
10,000	90	6,180	78	8,607	71	11,204	67	13,954
15,000	135	9,269	116	12,912	106	16,806	100	20,928
20,000	180	12,359	155	17,214	141	22,408	133	27,905
25,000	225	15,448	194	21,519	177	28,010	166	34,879
30,000	270	18,537	233	25,822	212	33,612	200	41,856
35,000	315	21,626	271	30,126	247	39,214	233	48,830
40,000	360	24,717	310	34,428	283	44,816	266	55,807
45,000	404	27,806	349	38,734	318	50,418	299	62,780
50,000	449	30,896	388	43,036	353	56,017	333	69,758

7½% Annual Percentage Rate

Amount Financed	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$1,000	9	670	8	934	7	1,217	7	1,520
10,000	93	6,688	81	9,334	74	12,170	70	15,175
15,000	139	10,031	121	14,002	111	18,255	105	22,760
20,000	185	13,374	161	18,669	148	24,340	140	30,346
25,000	232	16,717	201	23,336	185	30,425	175	37,932
30,000	278	20,060	242	28,003	222	36,510	210	45,517
35,000	324	23,403	282	32,670	259	42,595	245	53,103
40,000	371	26,746	322	37,338	296	48,680	280	60,688
45,000	417	30,089	363	42,005	333	54,765	315	68,274
50,000	464	33,432	403	46,672	370	60,850	350	75,860

Table III

8% Annual Percentage Rate

Amount Financed	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$1,000	10	721	8	1,009	8	1,316	7	1,642
10,000	96	7,203	84	10,076	77	13,157	73	16,417
15,000	143	10,803	125	15,113	116	19,734	110	24,625
20,000	191	14,405	167	20,150	154	26,311	147	32,834
25,000	239	18,006	209	25,189	193	32,888	183	41,042
30,000	287	21,606	251	30,226	232	39,465	220	49,247
35,000	334	25,206	293	35,262	270	46,042	257	57,455
40,000	382	28,809	335	40,299	309	52,619	294	65,664
45,000	430	32,409	376	45,336	347	59,196	330	73,872
50,000	478	36,009	418	50,375	386	65,773	367	82,080

8½% Annual Percentage Rate

Amount Financed	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$1,000	10	773	9	1,083	8	1,418	8	1,788
10,000	98	7,726	87	10,830	81	14,159	77	17,884
15,000	148	11,590	130	16,243	121	21,237	115	26,822
20,000	197	15,451	174	21,657	161	28,315	154	35,364
25,000	246	19,314	217	27,070	201	35,393	192	44,203
30,000	295	23,177	260	32,484	245	43,359	231	53,045
35,000	345	27,039	304	37,898	285	50,584	269	61,883
40,000	394	30,902	347	43,311	326	57,812	308	70,725
45,000	443	34,765	391	48,727	367	75,037	346	79,567
50,000	492	38,627	434	54,141	408	82,265	384	88,406

Table III

9% Annual Percentage Rate

Amount Financed	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$1,000	10	827	9	1,160	8	1,520	8	1,898
10,000	101	8,257	90	11,595	84	15,176	80	18,969
15,000	152	12,385	135	17,390	126	22,764	121	28,452
20,000	203	16,515	180	23,188	168	30,352	161	37,935
25,000	254	20,643	225	28,986	210	37,940	201	47,418
30,000	304	24,770	270	34,781	252	45,528	241	56,900
35,000	355	28,900	315	40,578	294	53,116	282	66,383
40,000	406	33,028	360	46,376	336	60,704	322	75,866
45,000	456	37,156	405	52,171	378	68,292	362	85,352
50,000	507	41,285	450	57,969	420	75,880	402	94,835

9½% Annual Percentage Rate

Amount Financed	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$1,000	10	881	9	1,239	9	1,622	8	2,028
10,000	104	8,797	93	12,373	87	16,211	84	20,272
15,000	157	13,195	140	18,557	131	24,318	126	30,407
20,000	209	17,593	186	24,743	175	32,422	168	40,545
25,000	261	21,991	233	30,930	218	40,529	210	50,679
30,000	313	26,389	280	37,114	262	48,633	252	60,814
35,000	365	30,786	326	43,300	306	56,740	294	70,948
40,000	418	35,184	373	49,486	349	64,844	336	81,086
45,000	470	39,584	419	54,670	393	72,951	378	91,220
50,000	522	43,982	466	61,857	437	81,055	420	101,355

Table III

10% Annual Percentage Rate

Amount Financed	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$1,000	11	935	10	1,318	9	1,727	9	2,161
10,000	107	9,345	97	13,162	91	17,264	88	21,594
15,000	161	14,016	145	19,742	136	25,893	132	32,390
20,000	215	18,687	193	26,322	182	34,525	176	43,187
25,000	269	23,359	241	32,902	227	43,154	219	53,984
30,000	322	28,030	290	39,482	273	51,786	263	64,781
35,000	376	32,702	338	46,062	318	60,415	307	75,578
40,000	430	37,373	386	52,642	363	69,047	351	86,371
45,000	484	42,044	434	59,222	409	77,676	395	97,168
50,000	537	46,716	483	65,805	454	86,308	439	107,964

10½% Annual Percentage Rate

Amount Financed	15 YEARS		20 YEARS		25 YEARS		30 YEARS	
	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge	Monthly Payment	Total Finance Charge
$1,000	11	989	10	1,395	9	1,832	9	1,294
10,000	111	9,890	100	13,952	94	18,320	92	12,940
15,000	166	14,835	150	20,928	142	27,480	137	34,410
20,000	221	19,780	200	27,904	189	36,640	183	45,880
25,000	276	24,725	250	34,880	236	45,800	229	57,350
30,000	332	29,670	300	41,856	283	54,960	275	68,820
35,000	387	34,615	349	48,832	330	64,120	320	80,290
40,000	442	39,560	399	55,808	378	73,280	366	91,760
45,000	497	44,505	449	62,784	425	82,440	412	103,230
50,000	555	49,450	499	69,760	472	91,600	458	114,700

The Commonwealth of Massachusetts
Office of the Commissioner of Banks
Leverett Saltonstall Building, Government Center
100 Cambridge Street, Boston 02202

MICHAEL S. DUKAKIS
GOVERNOR

CAROL S. GREENWALD
COMMISSIONER

October 6, 1976

Hon. Robert Bloom
Acting Comptroller of the Currency
490 L'Enfant Plaza
Washington, D.C. 20036

Dear Mr. Bloom:

The Board of Governors of the Federal Reserve System has granted to the Commonwealth of Massachusetts an exemption for Truth in Lending under Section 123 of the Consumer Credit Protection Act, effective July 1, 1970. The exemption applies to all classes of transactions within the Commonwealth, except those in which a Federally-chartered institution--such as a Federal credit union, Federal savings and loan association, or national bank--is a creditor. I now seek to include these classes of transactions within our exemption, and accordingly have petitioned the Board of Governors.

The terms of the Truth in Lending Act give the Board of Governors of the Federal Reserve System responsibility for establishing regulations to effectuate the Act and for determining what classes of credit shall not be subject to the Act. It is the position of the Board that all transactions in which a national bank is creditor constitute a separate class of transactions not exempt from the Federal Truth in Lending Act unless the Board is satisfied that appropriate arrangements have been made with your office to assure effective enforcement of substantially similar State laws. I am writing to seek your agreement that the Commonwealth enforce Truth in Lending in national banks in Massachusetts.

The Massachusetts Truth in Lending statute predates enactment of the Consumer Credit Protection Act, and was in fact the basis for much of the Federal act. This Department has been enforcing Truth in Lending since 1967, and as such has a decade of expertise in enforcement. We have twenty examiners who conduct special examinations on Truth in Lending and have budgeted for more. In addition, since 1969, all bank examiners as part of their training are required to be conversant with Truth in Lending.

It has been our experience that our Truth in Lending examinations are much more effective than Federal examinations. Chairman Benjamin Rosenthal of the House Commerce, Consumer and Monetary Affairs Subcommittee, at a hearing on September 15, 1976, released data compiled by his staff which shows that the Massachusetts Banking Department found finance charge violations in twenty-six percent of banks examined, as compared to zero in FDIC examinations (Opening Statement of the Chairman, Table 1). We have no reason to believe that your enforcement is any more effective than the FDIC's, since you, too, do not impose any monetary penalties on violators, even though Massachusetts law requires that overcharges or misstatements of rates on rebates require total refunding of all finance payments made, up to a $1,000 limit per violation. Clearly, although you say you are enforcing Massachusetts law, you are not.

To the extent that the Massachusetts statute is stricter than Federal law, enforcement by this Department in national banks will ensure that all citizens of the Commonwealth, regardless of where they bank, will have equal protection under laws passed for their benefit by the General Court.

I look forward to hearing from you as soon as possible that you are agreeable to our examining national banks for violations of Massachusetts Truth in Lending law.

Looking forward to working with you and Mr. Paterson, I am

Very truly yours,

Carol Greenwald

Carol S. Greenwald
Commissioner of Banks

CSG:mkf

cc: Hon. Charles H. Paterson
Regional Administrator of National Banks

Hon. Benjamin S. Rosenthal, Chairman
Commerce, Consumer, and Monetary Affairs
Subcommittee of the Committee on Government Operations
United States Congress, House of Representatives

Hon. William Proxmire, Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate

The Commonwealth of Massachusetts
Office of the Commissioner of Banks
Leverett Saltonstall Building, Government Center
100 Cambridge Street, Boston 02202

MICHAEL S. DUKAKIS
GOVERNOR

CAROL S. GREENWALD
COMMISSIONER

October 12, 1976

The Honorable Garth Marston
Acting Chairman
Federal Home Loan Bank Board
Federal Home Loan Bank Board Building
101 Indiana Avenue, N.W.
Washington, D.C. 20552

Dear Mr. Marston:

The Board of Governors of the Federal Reserve System has granted to the Commonwealth of Massachusetts an exemption for Truth in Lending under Section 123 of the Consumer Credit Protection Act, effective July 1, 1970. The exemption applies to all classes of transactions within the Commonwealth, except those in which a Federally-chartered institution--such as a Federal credit union, Federal savings and loan association, or national bank--is a creditor. I now seek to include these classes of transactions within our exemption, and accordingly have petitioned the Board of Governors.

The terms of the Truth in Lending Act give the Board of Governors of the Federal Reserve System responsibility for establishing regulations to effectuate the Act and for determining what classes of credit shall not be subject to the Act. It is the position of the Board that all transactions in which a Federal savings and loan association is creditor constitute a separate class of transactions not exempt from the Federal Truth in Lending Act unless the Board is satisfied that appropriate arrangements have been made with your office to assure effective enforcement of substantially similar State laws. I am writing to seek your agreement that the Commonwealth enforce Truth in Lending in Federal savings and loan associations in Massachusetts.

The Massachusetts Truth in Lending statute predates enactment of the Consumer Credit Protection Act, and was in fact the basis for much of the Federal act. This Department has been enforcing Truth in Lending

since 1967, and as such has a decade of expertise in enforcement. We have twenty examiners who conduct special examinations on Truth in Lending and have budgeted for more. In addition, since 1969, all bank examiners as part of their training are required to be conversant with Truth in Lending.

It has been our experience that our Truth in Lending examinations are much more effective than Federal examinations. Chairman Benjamin Rosenthal of the House Commerce, Consumer and Monetary Affairs Subcommittee, at a hearing on September 15, 1976, released data compiled by his staff which shows that the Massachusetts Banking Department found finance charge violations in twenty-six percent of banks examined, as compared to zero in FDIC examinations (Opening Statement of the Chairman, Table 1). We have no reason to believe that your enforcement is any more effective than the FDIC's, since you, too, do not impose any monetary penalties on violators, even though Massachusetts law requires that overcharges or misstatements of rates on rebates require total refunding.

In fact, it is the position of Mr. Campbell, Executive Vice President of the Federal Home Loan Bank of Boston, that Massachusetts law does not apply to Federal savings and loan associations, even though the Commonwealth's Truth in Lending law clearly refers to "creditors", not banks, and states that the Commissioner of Banks shall examine all consumer credit transactions made by all creditors to ensure compliance with the state's Truth in Lending law and regulations. Even the Comptroller of the Currency understands that Massachusetts law applies.

To the extent that the Massachusetts statute is stricter than Federal law, enforcement by this Department in Federal savings and loan associations will ensure that all citizens of the Commonwealth, regardless of where they bank, will have equal protection under laws passed for their benefit by the General Court.

I look forward to hearing from you as soon as possible that you are agreeable to our examining Federal savings and loan associations for violations of Massachusetts Truth in Lending law.

Looking forward to working with you and Mr. Campbell, I am

Very truly yours,

Carol Greenwald

Carol S. Greenwald
Commissioner of Banks

CSG:mkf

copies to: See page 3

cc: Mr. Robert R. Campbell
Executive Vice President
Federal Home Loan Bank of Boston

Hon. Benjamin S. Rosenthal, Chairman
Commerce, Consumer, and Monetary Affairs
Subcommittee of the Committee on
Government Operations
United States Congress
House of Representatives

Hon. William Proxmire, Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate

MASSACHUSETTS

TRUTH IN LENDING COMPLIANCE REPORT TO THE COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE, SEPTEMBER 15, 1976

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Findings
[redacted]	6-30-76	-	-	[redacted]	No exceptions noted
[redacted]	6-8-76	-	-	[redacted]	No exceptions noted
[redacted]	5-17-76	200	3%	[redacted]	No exceptions noted
[redacted]	5-11-76	2,000	1%	[redacted]	No exceptions noted
[redacted]	4-13-76	710	-	[redacted]	Incorrect disclosure on finance charge on demand loans. Incorrect disclosure of A.P.R. on some accounts. Incorrect disclosure of finance charge and/or Total of payments or blank on some accounts. No evidence of disclosure on some real estate loans Some advertising in violation. No exceptions cited 24
[redacted]	4-29-76	250	-	[redacted]	No exceptions noted

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	3-25-76	350	7%	[redacted]	No exceptions noted
[redacted]	3-31-76	720	-	[redacted]	Incorrect A.P.R. disclosed or blank on some accounts. Incorrect Amount Financed disclosed on some accounts. Incorrect Total of Payments disclosed. No disclosure concer ingdeferment chgs. on some accts. Right of rescission not properly offered Incorrect disclosure concerning default charges. Finance charge not disclosed on demand loans. Finance Charge and Total of Payments not disclosed on some real estate loans. No. of exceptions cited: 240
[redacted]	5-3-76	300	20%	[redacted]	No disclosure of method of rebating on property improvement loans. APR not disclosed on some accounts. No. of exceptions cited: 53

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	4-7-76	450	3%	[redacted]	No exceptions noted
[redacted]	3-12-76	600	75%	[redacted]	Incorrect disclosure of APR on demand loans. No disclosure of APR on some auto loans. Some accounts with insufficient disclosure No. of exceptions cited: 83
[redacted]	5-7-76	575	20%	[redacted]	No evidence of disclosure retained on some accounts. No evidence of rescission retained on some accounts. Incorrect disclosure of APR on some Accounts. Finance Charge not disclosed on some mortgages. No. of exceptions cited: 17
[redacted]	6-16-76	-	-	[redacted]	Incorrect disclosure of Finance Charge on some accounts. No provisions for default charges on some accounts. No. of exceptions cited: 14

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	6-11-76	1;527	20.3%	[redacted]	No exceptions cited.
[redacted]	3-26-76	900	33%	[redacted]	Some required terminology not more conspicuous. No. of exceptions cited: 900
[redacted]	3-11-76	-	-	[redacted]	Right of rescission not properly offered on some accounts. No evidence of disclosure retained on some accounts. Customer did not indicate desire for credit life insurance on some accounts. Some accounts with blank finance charge and/or Total of Payments. Incorrect disclosure on default charges on some accounts. Incorrect billing statements on some accounts. No. of exceptions cited: 27
[redacted]	6-2-76	550	30%	[redacted]	No exceptions cited
[redacted]	3-9-76	300	75%	[redacted]	No exceptions noted

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	3-30-76	226	30%	[redacted]	Some incorrect disclsure on default charges. Some required terminology not more conspicuous. No. of exceptions cited: 28
[redacted]	6-1-76	300	75%	[redacted]	Credit life not dated on some accounts. Some accounts with blank finance charge and Total of Payments. Right of Rescission not properly offered on some accounts. No. of exceptions cited: 4
[redacted]	3-19-76	200	20%	[redacted]	No exceptions cited
[redacted]	4-9-76	264	15%	[redacted]	No evidence of disclosures retained on some accounts. Some accounts with blank Totalof Payments, and Amount Financed. No provision for default charges disclosed on some accounts. No. of exceptions cited: 50

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	5-26-76	480	20%	[redacted]	Customer did not indicate desire for accident and health insurance on some accounts. No. of exceptions cited: 25
[redacted]	3-10-76	200	-	[redacted]	Incorrect disclosure concerning default charges on some accounts. No. of except. 34
[redacted]	5-10-76	700	40%	[redacted]	Some required terminology not more conspicuous. Incorrec disclosure concern-ings default charges on some accounts. Incorrect disclosure of finance charges on some accounts. No. of exceptions cited: 223
[redacted]	7-9-76	600	36%	[redacted]	No exceptions cited.
[redacted]	4-30-76	280	10%	[redacted]	No exceptions noted.
[redacted]	3-9-76	200	9%	[redacted]	No exceptions noted.
[redacted]	3-26-76	-	-	[redacted]	Incorrect disclosure of APR on demand loans. Some required terminology not more conspicuous No. of exceptions cited: 35

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	6-7-76	500	50%	[redacted]	No exceptions
[redacted]	5-3-76	-	-	[redacted]	Incorrect disclosure of A.P.R. on some accounts. Right of rescission not properly offered on some accounts. Incorrect disclosure of finance charges on some accounts. No. of accounts cited: 21
[redacted]	3-30-76	-	-	[redacted]	No exceptions noted
[redacted]	7-6-76	300	45%	[redacted]	No exceptions cited
[redacted]	4-30-76	402	30%	[redacted]	No exceptions cited
[redacted]	3-19-76	-	-	[redacted]	Some required terminology not more conspicuous. APR incorrectly disclosed on some contracts. Right of rescission not properly offered on some accounts. No exceptions cited: 90

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	3-10-76	-	-	[redacted]	Incorrect disclosure of APR on some accts. No evidence of disclosure retained on some accounts. Some accounts with blank Total of Payments and/or Finance charges. Some required terminology not more conspicuous. Right of rescission on property offered on some accounts. No. exceptions cited: 78
[redacted]	4-21-76	-	-	[redacted]	On some Home Improvement Loans Total of Payments incorrectly disclose Incorrect computation of rebates on some accounts. No evidence of disclosure retained on some accounts. No. exceptions cite 58
[redacted]	5-14-76	252	30%	[redacted]	No exceptions cite
[redacted]	5-3-76	600	10%	[redacted]	Incorrect disclosure of Total of Payments on some accounts Incorrect disclosure of finance charge on some accounts. Incorrect disclosure of A.P.R. on some accounts. No. of exceptions cited: 88

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Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	5-24-76	-	-	[redacted]	Incorrect disclosure of APR on some accts Incorrect disclosure of Total of Payments on some accounts. No evidence of disclosure given to customer on some acc Right of rescission not properly offered on some accts. Incorrect disclosure concerning deferment
					on some accts. Some advertising termino. incorrect. Provision for balloo payment not disclos on some accounts. No. of exceptions cited: 12
[redacted]	5-12-76	300	95%	[redacted]	Provision for balloo payment not disclos on some accounts. No. of exceptions cited: 110
[redacted]	4-12-76	-	-	[redacted]	Incorrect disclosure of A.P.R. or blank on some accounts. No evidence of disclosure retained on some accounts. No. of exceptions cited: 10
[redacted]	5-6-76	82	40%	[redacted]	No exceptions noted.

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	4-14-76	80	95%	[redacted]	No exceptions noted
[redacted]	5-26-76	528	30%	[redacted]	No exceptions noted
[redacted]	3-16-76	274	80%	[redacted]	Incorrect disclosure on demand loans. Incorrect disclosure on some personal loans and property improvement loans. No. of exceptions cited: 30
			TOTAL Ave.	$1,055,697 $144.1 million	

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	4-8-76	35	53%	[redacted]	None
[redacted]	4-23-76	705	30%	[redacted]	Incorrect disclosure of finance charge and A.P.R. on charge card agreement and/or Periodic Statement. No. of exceptions cited: 68
[redacted]	4-7-76	600	25%	[redacted]	Incorrect disclosure on installment loans Incorrect disclosure on auto loans. Incorrect disclosure on time and demand loans. No disclosure of deferments. Security not identified on time and demand loans. Incorrect computation of rebates. No. of exceptions cited: 207
[redacted]	5-24-76	800	10	[redacted]	Incorrect computation of rebates. Incorrect terminology on disclosure. Some accounts with blank finance charges and/or Total of Payments. Right of rescission not properly offered. Provision for balloon payment not disclosed.
			No. of exceptions:170		

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	2-12-76	-	-	[redacted]	A.P.R. disclosed on some accounts incorrect. Customer did not indicate desire for credit life insurance. Some accounts with rate overcharges. Incorrect computation of rebates. Incorrect disclosures on periodic statments. No. of exceptions cited: 160
[redacted]	5-27-76	100	6%	[redacted]	Incorrect disclosures on some time and unsecured loans. No. of exceptions cited: 23
[redacted]	4-23-76	215	20%	[redacted]	None
[redacted]	6-24-76	75	10%	[redacted]	Incorrect A.PR.on some loans. Incorrect computations of several rebate. No. of exceptions cited: 30
[redacted]	2-20-76	250	50%	[redacted]	Blank A.P.R. on some disclosure statements loans and RISS. Incorrect A.P.R. on several disclosure statements Credit life insurance not signed for. No. of exceptions cited: 62

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	3-4-76	100	12%	[redacted]	Incorrect computations of rebates No. of exceptions noted: 12
[redacted]	3-24-76	900	28%	[redacted]	Blank or incorrect A.P.R. on disclosure statements. Numerous omissions on disclosure statements. No disclosure statement on real estate loans. No description of security interest. Required terminology not used on periodic statements. Incorrect terminology used on Revolving Credit Agreements. No. of exceptions noted: 203
[redacted]	3-5-76	1,500	15%	[redacted]	A.P.R. underdisclosed & overdisclosed on several RISS disclos. Incorrect method of rebating onRISS and auto loans. On second mortgage loans, the interest is improperly computed . Incorrect disclosure statement on ins. pre. accts. A.P.R. overstated on several auto disclos. No. of exceptions noted: 158

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	2-17-76	550	23%	[redacted]	No. disclosure statements on several accounts. Finance charge blank on some accounts. Credit life insurance not dated on a number of accts. A.P.R. under disclose Incorrect method of rebating on several accounts. No. of exceptions cited: 76
[redacted]	4-13-76	6,000	15%	[redacted]	Default charges are not in conformity with small loan rate order. No. of exceptions noted: 320
[redacted]	6-24-76	-	-	[redacted]	Rignt of rescission not properly offered Omission of some required disclosures. No. of exceptions cited: 27
[redacted]	3-18-76	250	35%	[redacted]	Default charges incorrectly assessed. No. of exceptions cited: 4

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	6-6-76	-	-	[redacted]	Incorrect computation of rebates. A.P.R. incorrectly disclosed. Some accts with blank A.P.R., Finance Charge and/or Total of Payments: Omission of some required disclosures. No. of exceptions cited: 72
[redacted]	4-30-76	1,000	50%	[redacted]	N O N E
[redacted]	2-10-76	215	75%	[redacted]	Right of rescission not properly offered. No disclosure statements offered. Some accts. with blank A.P.R., Finance Charge, and/or Total of Payments. Advertisement(booklet incorrect. No. of exceptions cited: 28
[redacted]	2-23-76	250	52%	[redacted]	N O N E

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	5-13-76	60	10%	[redacted]	N O N E
[redacted]	6-9-76	600	68%	[redacted]	A.P.R. overdisclosed. A.P.R. and/or amt. financed blank. Default charge incorrectly assessed Disclosure copy not retained. Incorrect method of default charge disclosed. No. of exceptions cited: 475
[redacted]	5-6-76	-	-	[redacted]	Some accts. with blank finance charges and/or total of payments. No evidence of disclosure retained. Required wording not more conspicious on Periodic Statement Required disclosures omitted on Revolving Agreement. No. of exceptions cited: 112
[redacted]	5-31-76	-	-	[redacted]	Demand notes not identified. Incorrec computation of inter on second mortgages. Numerous disclosure omissions. No. disclosure on deferments Default charges incorrectly assessed. Incorrect rebates. No. of exceptions noted: 202

Name of Bank	Massachusetts Date of Examination	No. of Accts. Examined	Percentage Examined	Total Assets as of 6/30/76	Massachusetts Truth in Lending Examination Find's
[redacted]	4-26-76	-	-	[redacted]	Blank disclosure statements on demand loans. Disclosure omissions on demand loans. Disclosure omissions on Time Loans. F.C. and A.P.R. not more conspicuous than otner required terminology on time & demand loans. Blank A.P.R. and F.C. on installment loans. Incorrect computation of rebates on second mortgages. No. of exceptions noted: 183
[redacted]	4-22-76	-	-	[redacted]	Credit life not authorized. Credit life not dated. Incorrect computations of rebates. No. of exceptions cited: 43
[redacted]	4-2-76	2,000	20%	[redacted]	Disclosure copy not retained on paid accounts. No. of violations cited: 200
			TOTAL Av.	$1602768 $57.2 mill	

APPENDIX 4.—DEPARTMENT OF JUSTICE

Office of the Attorney General
Washington, D. C. 20530

REPORT OF THE ATTORNEY GENERAL
TO THE CONGRESS OF THE UNITED STATES
ON THE ENFORCEMENT OF TITLE I
OF THE CONSUMER CREDIT PROTECTION ACT OF 1968
FOR THE CALENDAR YEAR 1975

TO THE SENATE AND HOUSE OF REPRESENTATIVES OF AMERICA IN CONGRESS ASSEMBLED:

I am pleased to report on the activities of the Department of Justice in the enforcement of Title I of the Consumer Credit Protection Act of 1968 (Public Law 90-321). Section 114 of that Title requires the Attorney General to report on a yearly basis to the Congress concerning the administration of his functions under that Title, including such recommendations as he deems necessary or appropriate. This report covers calendar year 1975.

SUMMARY OF THE CONTENTS OF TITLE I OF
THE CONSUMER CREDIT PROTECTION ACT OF 1968
(THE TRUTH-IN-LENDING ACT)

Title I of the Consumer Credit Protection Act of 1968 is codified in subchapter 1 of chapter 41, Title 15 of the United States Code, and consists of Sections 1601 through 1666. It is known separately as the Truth-in-Lending Act.

The Act is intended to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and to avoid the uninformed use of credit. In general, the Act and Regulation Z promulgated by the Board of Governors of the Federal Reserve System require that lenders state explicitly and in uniform language what they are charging to lend money or extend credit in almost all consumer transactions involving less than $25,000 and in all real estate transactions regardless of the amount. Business and government loans and loans to buy securities are exempt. The Act also sets forth the nature and form of credit information which must be disclosed in advertising material disseminated to the public.

The Act assigns the administrative enforcement of its requirements to the following agencies: Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Bureau of Federal Credit Unions, Interstate Commerce Commission, Civil Aeronautics Board, Department of Agriculture, and the Federal Trade Commission.

Penal sanctions are set forth in Section 112 of the Act, 15 U.S.C. §1611, which provides that anyone who willfully and knowingly gives false or inaccurate credit information or fails to make proper disclosure as required by the Act, is guilty of a misdemeanor, and subject to punishment by a fine of not more than $5,000 or imprisonment for not more than one year, or both.

RESPONSIBILITIES OF THE ATTORNEY GENERAL
UNDER THE TRUTH-IN-LENDING ACT

The Department of Justice is responsible for enforcement of the criminal sanctions imposed by Section 112 of the Act. As noted above, the Act vests administrative enforcement in certain agencies. At the present time investigation into whether or not apparent violations of the Act are knowing and willful are normally conducted by these agencies. By agreement, the Federal Trade Commission and the Department of Treasury refer directly to the Department possible criminal violations of the Act which come to their attention.

In view of the fact that the requirements of the Act are generally self-executing, the thrust of our activities is to prosecute unethical businessmen who take unfair and unlawful advantage of consumers in a variety of ways, including the failure to disclose to consumers information required by the Act.

In this connection, the Department of Justice has expanded its investigation, which was commenced in 1974, regarding possible violations of 15 U.S.C. 1642 by retailers and financial institutions which are forbidden to issue unsolicited credit cards to consumers. The activities of companies which specialize in telephone contact with consumers for the purpose of placing credit cards has been the subject of increased study.

The Department of Justice commenced an action in the District Court for the District of Oregon in 1975, to enforce the terms of a consent cease and desist order, obtained by the Federal Trade Commission. The consent order requires an individual and several related corporations to comply with the substance and spirit of the Truth-in-Lending Act and regulations.

On August 15, 1975, the United States District Court for the Eastern District of Louisiana certified to the Attorney General that the constitutionality of the Truth-in-Lending Act and regulations has been questioned by a lender who was being sued for alleged truth-in-lending violations and the United States was given notice of its right to intervene pursuant to 28 U.S.C. 2403. The Department of Justice has intervened to protect the constitutionality of the Act and regulations.

Finally, the Department of Justice has ten investigations underway, including several referals from the Federal Deposit Insurance Corporation, concerning possible violations of the Act and regulations.

RECOMMENDATIONS

The Department of Justice presently has no recommendations for improving the efficacy of the Act in accomplishing the intentions of the Congress in the consumer protection area.

Respectfully submitted,

EDWARD H. LEVI
Attorney General

Office of the Attorney General
Washington, D. C. 20530

REPORT OF THE ATTORNEY GENERAL
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ON THE ENFORCEMENT OF TITLE I
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The Act assigns the administrative enforcement of its requirements to the following agencies: Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Bureau of Federal Credit Unions, Interstate Commerce Commission, Civil Aeronautics Board, Department of Agriculture, and the Federal Trade Commission.

Penal sanctions are set forth in Section 112 of the Act, 15 U.S.C. §1611, which provides that anyone who willfully and knowingly gives false or inaccurate credit information or

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fails to make proper disclosure as required by the Act, is guilty of a misdemeanor, and subject to punishment by a fine of not more than $5,000 or imprisonment for not more than one year, or both.

In 1974, Congress amended the Truth-in-Lending Act with the enactment of HR 11221 which inter alia added a new chapter to the Act relating to credit billing that creates a procedure to resolve credit disputes and protect consumers' credit reports pending such disputes. In addition, Title IV of HR 11221 amends Chapter 3 of the Act by creating a new section requiring certain disclosures in credit advertising where payments by consumers exceed four payments.

RESPONSIBILITIES OF THE ATTORNEY GENERAL
UNDER THE TRUTH-IN-LENDING ACT

The Department of Justice is responsible for enforcement of the criminal sanctions imposed by Section 112 of the Act. As noted above, the Act vests administrative enforcement in certain agencies. At the present time investigation into whether or not apparent violations of the Act are knowing and willful are normally conducted by these agencies. By agreement, the Federal Trade Commission and the Department of Treasury refer directly to the Department possible criminal violations of the Act which come to their attention.

In view of the fact that the requirements of the Act are generally self-executing, the thrust of our activities is to prosecute unethical businessmen who take unfair and unlawful advantage of consumers in a variety of ways, including the failure to disclose to consumers information required by the Act.

In this connection, in 1974, several indictments were returned by a federal grand jury in West Virginia against the officers of a home improvement construction company and a savings and loan association for failing to make necessary disclosures to consumers under the Truth-in-Lending Act, and for mail fraud, 18 U.S.C. 1341.

Some of the defendants pleaded guilty and subsequently cooperated with the United States Attorney as the investigation by the grand jury continued to examine other home improvement construction firms and financial institutions in the state. Because of its complexity and magnitude the investigation could continue for some time.

As reported last year a bank near Houston, Texas, was charged with failing to accurately disclose to its consumers the finance charge of transactions as an annual percentage rate. On May 9, 1974, the defendant was found guilty and fined $500.00.

Finally, the Department of Justice has undertaken an investigation regarding possible violations of 15 U.S.C. 1642 by several retailers and financial institutions for issuing to consumers credit cards without the consumers making an application.

RECOMMENDATIONS

In view of the recent amendments to the Act, the Department of Justice presently has no recommendations for improving the efficacy of the Act in accomplishing the intentions of the Congress in the consumer protection area.

Respectfully submitted,

WILLIAM B. SAXBE
Attorney General

Office of the Attorney General
Washington, D. C. 20530

REPORT OF THE ATTORNEY GENERAL TO THE CONGRESS OF THE UNITED STATES ON THE ENFORCEMENT OF TITLE I OF THE CONSUMER CREDIT PROTECTION ACT OF 1968 FOR THE CALENDAR YEAR 1973

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SUMMARY OF THE CONTENTS OF TITLE I OF THE CONSUMER CREDIT PROTECTION ACT OF 1968 (THE TRUTH-IN-LENDING ACT)

Title I of the Consumer Credit Protection Act of 1968 is codified in subchapter 1 of chapter 41, Title 15 of the United States Code, and consists of Sections 1601 through 1665. It is known separately as the Truth-in-Lending Act.

The Act is intended to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and to avoid the uninformed use of credit. In general, the Act and Regulation Z promulgated by the Board of Governors of the Federal Reserve System require that lenders state explicitly and in uniform language what they are charging to lend money or extend credit in almost all consumer transactions involving less than $25,000 and in all real estate transactions regardless of the amount. Business and government loans and loans to buy securities are exempt. The Act also sets forth the nature and form of credit information which must be disclosed in advertising material disseminated to the public.

The Act assigns the administrative enforcement of its requirements to the following agencies: Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Bureau of Federal Credit Unions, Interstate Commerce Commission, Civil Aeronautics Board, Department of Agriculture, and the Federal Trade Commission.

Penal sanctions are set forth in Section 112 of the Act, 15 U.S.C. §1611, which provides that anyone who willfully and

knowingly gives false or inaccurate credit information or fails to make proper disclosure as required by the Act, is guilty of a misdemeanor, and subject to punishment by a fine of not more than $5,000 or imprisonment for not more than one year, or both.

RESPONSIBILITIES OF THE ATTORNEY GENERAL
UNDER THE TRUTH-IN-LENDING ACT

The Department of Justice is responsible for enforcement of the criminal sanctions imposed by Section 112 of the Act. As noted above, the Act vests administrative enforcement in certain agencies. At the present time investigation into whether or not apparent violations of the Act are knowing and willful are normally conducted by these agencies. By agreement the Federal Trade Commission and the Department of Treasury refer directly to the Department possible criminal violations of the Act which come to their attention. In the next year we plan to reach similar agreements with other agencies.

In view of the fact that the requirements of the Act are generally self-executing, the thrust of our activities is to prosecute unethical businessmen who take unfair and unlawful advantage of consumers in a variety of ways, including the failure to disclose to consumers information required by the Act.

In this connection, in 1973, three criminal informations were filed by United States Attorneys alleging violations of the Act. In one case, the owner of a Cleveland, Ohio, home improvement business was charged with failing to disclose in his contracts that a three-day right of recision could be exercised by consumers. The defendant pleaded guilty to two counts and was fined $1,000. In a second information, the owner of a jewelry business was charged with failing to disclose to his credit customers the finance charge of the transaction expressed as an annual percentage rate. Following trial, the defendant was acquitted by the jury. In the third case a bank near Houston, Texas, has been charged with failing to accurately disclose to its credit customers the finance charge of the transaction expressed as an annual percentage rate. The defendant pleaded not guilty. No trial date has been set by the Court. In addition, three investigations were terminated without prosecution.

As indicated in last year's report, a Los Angeles, California, swimming pool firm and three of its officers were indicted in October, 1972, for violations of 15 U.S.C. 1611 and conspiracy, 18 U.S.C. 371. After a trial to the Court commencing on February 6, 1973, two of the officers were

found guilty of conspiracy and for not informing consumers of their three-day right to rescind. The firm and third officer were acquitted by the Court. As yet, no trial date has been set in the Western District of Missouri regarding the indictment of a Kansas City heating and air conditioning company.

At the present time five cases are under investigation to determine whether criminal prosecution is warranted.

RECOMMENDATIONS

The Department of Justice presently has no recommendations for improving the efficacy of the Act in accomplishing the intentions of the Congress in the consumer protection area.

Respectfully submitted,

WILLIAM B. SAXBE
Attorney General

Office of the Attorney General
Washington, D. C. 20530

REPORT OF THE ATTORNEY GENERAL
TO THE CONGRESS OF THE UNITED STATES
ON THE ENFORCEMENT OF TITLE I
OF THE CONSUMER CREDIT PROTECTION ACT OF 1968
FOR THE CALENDAR YEAR 1971

TO THE SENATE AND HOUSE OF REPRESENTATIVES
OF AMERICA IN CONGRESS ASSEMBLED:

I am pleased to report on the activities of the Department of Justice in the enforcement of Title I of the Consumer Credit Protection Act of 1968 (Public Law 90-321). Section 114 of that Title requires the Attorney General to report on a yearly basis to the Congress concerning the administration of his functions under that Title, including such recommendations as he deems necessary or appropriate. This report covers calendar year 1971.

SUMMARY OF THE CONTENTS OF TITLE I OF
THE CONSUMER CREDIT PROTECTION ACT OF 1968
(THE TRUTH IN LENDING ACT)

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The Act assigns the administrative enforcement of its requirements to the following agencies: Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Bureau of Federal Credit Unions, Interstate Commerce Commission, Civil Aeronautics Board, Department of Agriculture and the Federal Trade Commission.

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willfully and knowingly gives false or inaccurate credit information or fails to make proper disclosure as required by the Act, is guilty of a misdemeanor, and subject to punishment by a fine of not more than $5,000 or imprisonment for not more than one year, or both.

RESPONSIBILITIES OF THE ATTORNEY GENERAL UNDER THE TRUTH IN LENDING ACT

The Department of Justice is responsible for the enforcement of the criminal sanctions imposed by Section 112 of the Act. As noted above, the Act vests administrative enforcement responsibilities in certain agencies. I have entered into arrangements with these agencies for the investigation and referral to the appropriate United States Attorney of possible willful and knowing violations of the Act which come to their attention.

The Department's records indicate that during calendar year 1971 nine cases were referred to the appropriate United States Attorney for consideration as to criminal prosecution. In five instances, prosecution was declined because there was insufficient evidence of willfulness to justify return of an indictment. Prosecution

was declined for the same reason in the two cases under investigation at the time of my previous report. Four cases are presently under investigation to determine whether prosecution is warranted.

In addition, on November 19, 1971, the grand jury for the Western District of Wisconsin, after an investigation conducted on the initiative of the United States Attorney, returned indictments against eight individuals charging violations of Section 112 of the Act, 15 U.S.C. § 1611. One of the individuals indicted has entered a plea of guilty which has been accepted by the court.

RECOMMENDATIONS

The Department of Justice has no specific recommendations to make concerning the efficacy of the Act in accomplishing the intentions of the Congress in the consumer protection area.

Respectfully submitted,

JOHN N. MITCHELL
Attorney General

Office of the Attorney General
Washington, D. C.

January 2, 1971

REPORT OF THE ATTORNEY GENERAL
TO THE CONGRESS OF THE UNITED STATES
ON THE ENFORCEMENT OF TITLE I
OF THE CONSUMER CREDIT PROTECTION ACT OF 1968
FOR THE CALENDAR YEAR 1970

TO THE SENATE AND HOUSE OF REPRESENTATIVES

OF AMERICA IN CONGRESS ASSEMBLED:

I am pleased to report on the activities of the Department of Justice in the enforcement of Title I of the Consumer Credit Protection Act of 1968 (Public Law 90-321). Section 114 of that Title requires the Attorney General to report on a yearly basis to the Congress concerning the administration of his functions under that Title, including such recommendations as he deems necessary or appropriate. This report covers calendar year 1970.

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Penal sanctions are set forth in Section 112 of the Act, Section 1611, Title 15 United States Code, which provides that anyone who willfully and knowingly gives false or inaccurate credit information or fails to make proper disclosure as required by the Act, is guilty of a misdemeanor, and subject to punishment by a fine of not more than $5,000 or imprisonment for not more than one year, or both.

RESPONSIBILITIES OF THE ATTORNEY GENERAL
UNDER THE TRUTH IN LENDING ACT

The Department of Justice is responsible for the enforcement of the criminal sanctions imposed by Section 112 of the Act. As noted above, the Act vests administrative enforcement responsibilities

in certain agencies. I have entered into arrangements with these agencies for the investigation and referral to the appropriate United States Attorney of possible willful and knowing violations of the Act which come to their attention.

The Department's records indicate that during calendar year 1970 twelve cases were referred to the appropriate United States Attorney for consideration as to criminal prosecution. In ten instances, prosecution was declined because there was insufficient evidence of willfullness to justify return of an indictment. Two cases are presently under investigation to determine whether prosecution is warranted. To date, no criminal prosecutions have been inititated for violations of Section 112 of the Act.

RECOMMENDATIONS

The Department of Justice has no specific recommendations concerning the efficacy of the Act in accomplishing the intentions of the Congress in the consumer protection area.

Respectfully submitted,

John N. Mitchell

JOHN N. MITCHELL
Attorney General

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

OFFICE OF THE VICE CHAIRMAN

July 16, 1976

The Honorable William Proxmire
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Our letter of June 25 transmitted a draft bill encompassing a number of recommendations by the Board for simplifying changes in the Truth in Lending Act as a result of your request. After further review the Board now recommends three additional changes in the Act. A draft bill that would implement these changes is enclosed. The Board also suggests that your Committee study four additional areas for simplification, described below. The Board does not make unconditional recommendations in these four areas because simplification of the Act in these respects might result in loss of certain consumer protections. The Board believes that adoption of its recommendations for simplification would not deprive consumers of essential information needed to shop for credit or to understand their credit arrangement, such as the amount of credit, finance charge, annual percentage rate, and repayment terms.

The first recommendation for further simplification would eliminate the itemization of certain charges enumerated in Section 106(d), which requires that such charges be disclosed if they are to be excluded from the finance charge. The Board believes that such itemization is not necessary for the protection of consumers. Section 106(e) does not contain an itemization requirement for similar charges in real property transactions in order to exclude them from the finance charge, and no problems seem to have arisen because of the lack of such a requirement.

The second recommendation would eliminate disclosure of the type of security taken in connection with a credit transaction. The Board believes that this disclosure, which is ordinarily couched in highly technical language, provides little, if any, useful information to the consumer in making a credit decision. It might also be noted that this requirement has given rise to a considerable amount of litigation and may impose substantial burdens without concomitant consumer benefits.

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The third recommendation would limit the requirements of Sections 128(a) and 129(a) regarding clear identification of property taken as security for a closed-end credit transaction to make it inapplicable to those items of property that are being purchased as part of the credit transaction. Since the property taken as security is usually limited to the item being purchased, this change would in most cases eliminate disclosure of a fact of which consumers are generally already aware.

The additional four areas that your Committee may wish to consider involve potential adverse impacts on consumers that should be weighed carefully against the benefits of simplification before Congress determines that such disclosures are eliminated. The first of these concerns preemption of inconsistent State laws, State exemptions, and the validity of laws providing greater consumer protection (Sections 111(a), 123, and 171). The Board believes that the benefit from a preemption of all similar existing State laws in this area by the Federal statute may outweigh any loss of protection to consumers and would justify such action by Congress. In this respect, the drafters of the Uniform Consumer Credit Code, which was originally designed in part to afford States a basis for obtaining an exemption from Chapter 2 of the Truth in Lending Act, have abandoned that approach. The prefatory note to that Act states in part (at p. xxxiv):

> "[T]his Act evidences the conclusion that Congress has preempted the field of disclosure and any attempt of States to remain in the field by enacting statutes and regulations of their own cause [sic] substantially more harm than good."

As an alternative to the adoption of substantially similar laws by a State, the Code would incorporate the Federal disclosure law by reference so as to provide a State with the authority to enforce the Federal law.

The second area that the Board questions involves enforcement of the Act. Much of the present complexity of the Act and Regulation Z reflects the impact of the civil liability considerations. The threat of severe penalties for relatively minor technical violations has led many creditors to seek greater certainty by requesting official Board amendments and interpretations, which further complicate the regulation. Although private causes of action provide an important enforcement tool for the Act, the Board believes that Congress should carefully review the present civil liability provisions to determine whether modifications in them might reduce needless litigation and the resulting regulatory complications.

The Board has taken one action and is considering another that may assist in reducing unnecessary litigation. The Board has adopted procedures implementing the provisions of Public Laws 94-222

and 94-239, which provide a defense for creditors relying upon letters issued by duly authorized officials of the Board in connection with Regulations B and Z. In addition, the Board is considering the development of standardized Truth in Lending disclosure forms, or portions of forms, on which creditors could rely in complying with the Act. These forms could prove especially beneficial to creditors, such as small retailers, who do not have access to, or cannot afford, specialized legal counsel to design their forms.

While these measures should to some extent reduce the present volume of litigation and alleviate confusion resulting from the complexity of the Act and the regulation, the Board urges that Congress also study the possibility of limiting the penalty provisions of the statute to violations that actually interfere with the consumer's ability to make meaningful comparisons of credit terms. Only a limited number of terms seem to be genuinely helpful in this regard. These probably include the annual percentage rate, the finance charge, the amount financed, and the repayment schedule. It may be that civil liability should be incurred only for material misstatements of these terms, leaving technical violations to be dealt with by administrative remedies. Under present law a creditor may be penalized for purely technical violations of which the consumer may have been unaware at the time and which in no way entered into the decision to accept or reject the credit terms offered. This situation lends itself to abuse and has overburdened some courts with Truth in Lending litigation.

The third area relates to Sections 128(a) and 129(a), which require, among other things, disclosure of certain terms and amounts used in determining the amount financed in closed-end credit transactions. By introducing a variety of terms and figures into the disclosures, these provisions certainly contribute to the length and complexity of the disclosures to consumers. However, they specify the mathematical progression to be used by the creditor in determining the amount financed and also provide information that consumers may find useful in understanding the terms of the credit transaction.

Fourth, your Committee may also wish to consider whether the coverage of credit for agricultural purposes within the scope of the Truth in Lending Act is necessary. Coverage of such credit has caused numerous complexities in Regulation Z. There is a question whether an Act designed to protect consumers should include a type of credit that is related primarily to business or commercial activity.

The suggestions mentioned have been developed through an extensive review of the Act's requirements performed by the Board's staff with the assistance of several outside consultants. This review related primarily to those provisions of Truth in Lending that were contained in the original Act and for the most part affect only closed end credit transactions. Each section of that Act was care-

fully examined as a candidate for elimination or modification, attempting to balance creditor burdens in providing the information with the consumer protections that the information provides. Of course, the provisions regarding open end credit are equally complex and certainly warrant further attention by Congress and the Board. Since the recent Fair Credit Billing Act amendments are so closely related to open end credit, however, we believe that proposals for simplification in this area should await further experience.

I hope that you will find this discussion useful in your continuing efforts in the field of consumer protection.

Sincerely yours,

Stephen S. Gardner

Enclosure

A BILL

To amend the Truth in Lending Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that section 106(d) of the Truth in Lending Act (15 U.S.C. 1605(d)) is amended to read as follows:

"(d) The following items shall not be included in the computation of the finance charge with respect to any transaction:

(1) Fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting or releasing or satisfying any security related to the credit transaction.

(2) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, if the premium does not exceed the fees and charges described in paragraph (1) which would otherwise be payable.

(3) Taxes.

(4) Any other type of charge which is not for credit and the exclusion of which from the finance charge is approved by the Board by regulation."

Section 2. Section 128(a)(10) of the Truth in Lending Act (15 U.S.C. 1638(a)(10)) is amended to read as follows:

"(10) A statement indicating that a security interest is taken in any property which is the subject of the extension of credit and a clear identification of any other property in which a security interest is held or is to be retained or acquired by the creditor in connection with the extension of credit."

Section 3. Section 129(a)(8) of the Truth in Lending Act (15 U.S.C. 1639(a)(8)) is amended to read as follows:

"(8) A statement indicating that a security interest is taken in any property which is acquired with the proceeds of the extension of credit and a clear identification of any other property in which a security interest is held or is to be retained or acquired by the creditor in connection with the extension of credit."

FEDERAL RESERVE SYSTEM – TRUTH IN LENDING COMPLIANCE REPORT TO THE COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE

TRUTH IN LENDING COMPLIANCE BY STATE MEMBER BANKS IN SELECTED STATES
(Examined March 1, 1975, through July 31, 1976)

States	Violations Discovered Regarding:				Number of Banks Examined	Total Assets (000) (Average)
	Disclosure	Dealer Paper	Advertising	Right of Rescission		
New Hampshire	0	0	0	0	1	$ 25,761
New York	1,295*	0	0	1	93	1,634,000
New Jersey	14	3	2	4	28	186,075
Pennsylvania	19	0	2	3	17	469,640
Maryland	0	1	0	1	6	176,424

*As a supplement to the regular examination procedures, the New York Federal Reserve Bank reviews disclosure forms for the State member banks under its jurisdiction. This figure includes disclosure or form violations discovered through this process from the beginning of 1975 through June, 1976.

ANNUAL REPORT TO CONGRESS

ON

TRUTH IN LENDING

FOR THE YEAR 1975

Board of Governors of the Federal Reserve System

January 3, 1976

TABLE OF CONTENTS

This seventh Annual Report on Truth in Lending is submitted to the Congress by the Board of Governors of the Federal Reserve System. This report includes information on the Board's administration of its functions under the Truth in Lending Act and an assessment of the extent to which compliance with the requirements of the Truth in Lending Act is being achieved. The Board plans to submit recommendations for amendments to the Act early in 1976 in its regular Annual Report to Congress.

I. ADMINISTRATIVE FUNCTIONS

A. Office of Saver and Consumer Affairs

The responsibilities of the Office of Saver and Consumer Affairs (OSCA), established in August 1974 to administer the Board's Truth in Lending and Securities Credit regulatory functions, have expanded during 1975 to include implementation and administration of the Fair Credit Billing and Equal Credit Opportunity Acts (Titles III and V of Public Law 93-495), as well as rule-writing authority to prohibit unfair or deceptive acts or practices of banks (Federal Trade Commission Improvement Act, Title II of Public Law 93-637).

B. Amendments and Interpretations--Regulation Z

Fair Credit Billing Act Regulations

In September 1975 the Board issued final regulations amending Regulation Z to implement the Fair Credit Billing Act, an amendment to the Truth in Lending Act contained in Title III of

Public Law 93-495. The Fair Credit Billing Act was passed by the Congress because of its concerns that creditors were not responding adequately to allegations of billing errors and that consumers had no effective means of resolving billing disputes.

The issuance of the regulations culminated nearly a year of drafting and redrafting, during which time the Board and its staff consulted extensively with consumer and creditor representatives, consultants, and members of the Truth in Lending Advisory Committee to insure that the regulations would provide consumers with all the protections mandated by the Act within a framework that is workable and does not impose unnecessary burdens on consumers or creditors. The proposed regulations were first published for comment in early May, following a meeting of the Advisory Committee. The proposal elicited more than 300 comments from interested parties and the general public. After analyzing the issues raised in the comments, the Board published a revised proposal of regulations in early August and announced its intention to hold informal hearings to solicit views on some of the more troublesome issues which had arisen.

Hearings were held in early August. The witnesses who testified represented banker, bank card, or retail merchant trade associations, as well as consumer groups. The oral testimony together with the written comments received in response to the revised proposal served as a further basis for drafting the final regulations which were issued in mid-September and which, except for provisions with specified transition periods, went into effect on October 28, 1975.

The Fair Credit Billing Act and its implementing regulations establish an error resolution procedure for consumers to utilize in resolving credit billing disputes promptly and fairly. The error resolution procedure is designed to assure that consumers asserting billing errors get prompt attention by requiring an acknowledgment of their inquiry within 30 days and a resolution within two billing cycles (but in no case more than 90 days). While the error resolution procedure is going on, the consumer may withhold payment of amounts in dispute and the creditor may not report to any third party that the consumer is delinquent with respect to such amounts withheld. Failure of a creditor to comply with the billing error or credit reporting provisions of the regulations results in a forfeiture of the disputed amount, up to $50, regardless of whether or not an error has been made.

The regulations also impose affirmative responsibilities on creditors to eliminate certain practices deemed unfair to consumers who use credit cards or other open end credit accounts. Creditors of open end accounts that provide a time period within which the customer may pay without incurring a finance charge must send their periodic statements at least 14 days before the date specified for payment to avoid imposition of finance charges. Creditors must also promptly (a) credit payments to avoid the imposition of any finance charges after a payment is received, (b) credit an account to reflect credit refunds for returned merchandise, and (c) credit or refund any excess payments made on an account.

Another major provision of the regulations allows a consumer, under specified conditions, to withhold payment and assert against a card issuer any claims (other than tort) or defenses to payment that he has against the merchant arising out of the transaction that gave rise to the debt.

The regulations also prohibit certain practices between card issuers and merchants that the Congress considered anticompetitive. Card issuers are prohibited from requiring merchants to obtain from them, as a condition for participating in the card plan, any services that are not essential to the operation of the card plan. Also, card issuers are prohibited from preventing merchants from offering a discount to customers who pay in cash rather than by credit card.

In this connection, the Act and the regulations encourage merchants to offer discounts for payment in cash rather than by credit card by providing that, if specified conditions are met, discounts of up to 5 per cent for cash do not constitute finance charges under the Truth in Lending Act and, consequently, do not have to be disclosed as finance charges on purchases made with credit cards. This provision has created a great deal of controversy with respect to its applicability to surcharges. A surcharge pricing system is one in which an extra charge is levied when a credit card is used and, in effect, results in a cash customer receiving a lower price for paying in cash. The question is whether the Congress intended surcharge systems to be included under the broad designation "discounts

for cash." Arguments on both sides of the issue were advanced during the course of the Board's deliberations on this question. Since the legislative history gave no clear indication as to congressional intent, and since the "discount" provision is an exception to the general principle of disclosure embodied in the Truth in Lending Act, the Board in its final regulations interpreted the term "discount" narrowly as excluding surcharge pricing systems and wrote to Congress requesting additional legislative guidance on this question. (A copy of the Board's letter is attached as Appendix A.)

Identification of Transactions on Periodic Billing Statements

In September 1975 the Board adopted an amendment to Regulation Z to implement Section 411 of Public Law 93-495. The amendment sets out requirements pertaining to descriptions of credit transactions that creditors are required to furnish to their customers on or with periodic statements under an open end credit plan.

Section 411 reflects the Congress' concern that consumers be given sufficient information on or with their periodic statements for open end credit card accounts to enable them to identify the individual transactions that appear on their statements. This is especially crucial at a time when increasing numbers of creditors are switching from the more expensive and cumbersome "country club billing," in which copies of sales vouchers are included with the periodic statement, to "descriptive billing," in which descriptions of the transactions are substituted for actual copies of the

documents evidencing the transactions. The disclosures required by the regulation are designed to aid a consumer in recalling the transactions for which he is billed or in relating the information on the billing statement to a voucher supplied at the time of the transaction. Transition periods were provided to allow time for creditors to make changes in forms, procedures, and computer programming to comply with the final rules.

RESPA Disclosure Statement

In May 1975 the Board adopted a Truth in Lending disclosure form to assist consumers in understanding the credit terms in purchases of residential real estate. The disclosure form was developed pursuant to the Real Estate Settlement Procedures Act (RESPA), 12 U.S.C. § 2601 et seq., which requires that consumers in home purchase credit transactions be given a Uniform Disclosure/Settlement Statement at least 12 days prior to settlement and again at the time of settlement to insure that they are informed of the closing and credit costs involved in the transaction. As the agency with rule-writing authority for the Truth in Lending Act, the Board developed the credit disclosure portion of the Uniform Disclosure/Settlement Statement.

In conjunction with the adoption of the Truth in Lending disclosure form, the Board developed a set of instructions to accompany it. At the same time, the Board adopted an interpretation of Regulation Z regarding the use of the form.

The Board is aware that amendments to RESPA have now been passed which remove the requirement relating to the use of the credit cost portion of the Uniform Disclosure/Settlement Statement. In light of this action, the Board intends to rescind its implementing interpretation.

Disclosure of Closing Costs

In October 1975 the Board adopted an amendment to Regulation Z to implement Section 409 of Public Law 93-495 requiring disclosure of closing costs in certain real property transactions--transactions in which a security interest in real property is or will be retained or acquired by the creditor. The amendment requires that the disclosures be given prior to the making of any downpayment in the case of credit sales and at the time the creditor makes a loan commitment in other extensions of credit.

The amendment does not apply to transactions subject to RESPA or to transactions exempted from RESPA by the Department of Housing and Urban Development. The disclosure provisions are limited to real property transactions because the Board felt that, in other types of transactions, closing costs generally are either not present or minimal in amount and not likely to vary from creditor to creditor.

The provisions of the amendment go into effect on January 31, 1976. This transition period took account of the fact that the Congress was considering, on the Board's recommendation, the repeal of Section 409 of the Act. Now that this section has been

repealed, the Board intends to rescind the implementing Regulation Z provision.

Variable Interest Rates

In December 1974 the Board issued for comment a proposal to amend Regulation Z to require other than open end creditors to disclose certain information pertaining to any variable interest rate clauses contained in their promissory notes or other contractual instruments. In general, these clauses permit a creditor to raise or lower the contract rate of interest in response to fluctuations in market rates. They are often found in long-term obligations such as home mortgages, but they were seldom invoked until recently when market rates increased dramatically.

Numerous comments on this proposal have been received. The Board is currently analyzing these comments and action on the proposal should be forthcoming.

Disclosure of Single-Component Finance Charge

In November 1975 the Board adopted an interpretation of Regulation Z Sections 226.8(c)(8)(i) and 226.8(d)(3), which require the disclosure of the total amount of the finance charge with a "description of each amount included." The interpretation relates to the application of these provisions to other than open end credit transactions when the finance charge is composed of only a single element. The interpretation provides that, in instances in which there is only a single-component finance charge, the creditor may

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simply disclose that single element under the term "finance charge" without further identification or description. However, where there is more than one element comprising the finance charge, creditors are required under Regulation Z to describe each amount included in the finance charge.

Cash Advance Checks and Other Supplemental Credit Devices

In September 1975 the Board adopted an amendment to Regulation Z requiring open end creditors who send their customers blank checks or other supplementary credit devices intended for use in connection with their open end credit accounts to clearly disclose the charges and other pertinent credit information specifically related to the use of the credit device delivered.

The Board became aware of the need for the amendment when many bank card issuers began providing their cardholders with what appeared to be personalized checks but which, in fact, were instruments activating cash advance loans charged to a customer's credit account. Prior to adoption of this amendment, if a creditor had disclosed the terms of a cash advance loan before the customer used the open end account, the creditor was not required to disclose cash advance terms when the checks were issued. The Board felt that, since the account may have been opened several years earlier, new disclosures of the terms of check-activated cash advance loans should be repeated at the time of issuance of such checks. These disclosure requirements also apply to other new credit devices incorporated into an open end account. The requirements become effective in January 1976.

Title IV of Public Law 93-495: Amendments to the Truth in Lending Act

Title IV of Public Law 93-495 contained a number of amendments to the Truth in Lending Act which were designed to improve administration of that Act. These amendments effectuate many of the recommendations that the Board has made to the Congress in previous annual reports. In July 1975 the Board adopted a series of amendments to Regulation Z to implement most of these changes. These amendments provide that:

(1) Advertisements concerning extensions of credit repayable in more than four instalments and for which there is no finance charge identified shall state that the cost of credit is included in the price of the goods and services (§ 401).

(2) Credit transactions primarily for agricultural purposes where the amount financed exceeds $25,000 are exempt from the disclosure provisions of the Truth in Lending Act and Regulation Z (§ 402).

(3) Enforcement responsibilities under the Truth in Lending Act be removed from the Interstate Commerce Commission and that the Farm Credit Administration be added as an enforcement agency for agricultural credit institutions under its supervision (§ 403).

(4) The right of rescission in residential real property transactions expires three years from the date of the consummation of the transaction or upon the sale of the property, whichever occurs earlier (§ 405).

(5) Issuers of credit cards and businesses or organizations may contract without regard to the other relevant provisions of Regulation Z regarding the liability for unauthorized use of the cards when (a) the card issuer issues ten or more cards to a single business or organization for use by its employees, and (b) the liability imposed on such employees for unauthorized use does not exceed $50, the amount permitted by Regulation Z (§ 410).

(6) Any credit transaction involving an agency of a State as creditor is not subject to the right of rescission (§ 412).

(7) The creditor of an open end account may allow a longer period than that disclosed to the customer in which to make payment in full and avoid additional finance charges (§ 415).

(8) Section 226.1(c), which refers to statutory civil and criminal penalties, is revised to include provisions for (a) criminal liability for certain fraudulent acts related to credit cards (§ 414), (b) civil liability in individual or class actions for creditors who fail to comply with Chapter 2 or Chapter 4 (Fair Credit Billing) and corresponding provisions of Regulation Z (§ 408), (c) a creditor's defense for good faith compliance with Regulation Z (§ 406), (d) single recovery for multiple failures to disclose in a single account (§ 407), and (e) civil liability of assignees for violations of disclosure requirements where the violation is apparent on the face of the instrument assigned (§ 413).

C. Advisory Committee

As previously mentioned, the Board convened a meeting of the Truth in Lending Advisory Committee in the past year. The meeting took place on April 22, 1975, and was held for the purpose of obtaining members' views on the Board's proposal of regulations to implement the Fair Credit Billing Act. The Committee discussed policy objectives of the proposed regulations and undertook a section-by-section analysis of the proposal to pinpoint areas likely to cause problems for consumers and creditors and to make suggestions as to how these problems might be alleviated. The Committee members suggested solutions which, in many instances, were incorporated into the regulations. (A list of Advisory Committee members is attached as Appendix B.)

D. State Exemptions

No new requests from States for exemption from the disclosure, rescission, or credit card requirements of the Truth in Lending Act were filed with the Board during 1975. The application from Idaho, submitted in 1974, was denied by the Board on the grounds that Idaho law was not substantially similar to the Federal law.

With respect to the exemptions already granted, in light of the numerous amendments to the Act and Regulation during 1975, the Board's staff has apprised the exempt States (Connecticut, Maine, Massachusetts, Oklahoma, and Wyoming) of the legislative and regulatory actions required to be taken to assure that their laws remain substantially similar to the Federal Act.

In addition, the Fair Credit Billing Act (Chapter 4 of the Truth in Lending Act) contains a provision similar to the exemption provision in Chapter 2 of the Act authorizing the Board to grant State exemptions from the requirements of the Fair Credit Billing Act when the State law is substantially similar or provides greater protection to consumers. The Board plans to adopt a supplement to Regulation Z that would set out the procedure for procuring State exemptions under the Fair Credit Billing Act. The supplement would also detail the procedure to be followed by a State in seeking a Board determination as to whether a State law is inconsistent with the Fair Credit Billing Act.

E. Litigation

While numerous court decisions concerning Truth in Lending were handed down in 1975, the most noteworthy opinion, and the only case directly involving the Board (as amicus curiae), was the decision in Ives v. W. T. Grant Company,[1/] decided by the U.S. Court of Appeals for the Second Circuit.

The Ives decision was significant in two respects. First, it upheld the Board's authority to issue Section 226.12(c) of Regulation Z, which provides that the Federal courts have jurisdiction in all Truth in Lending actions for civil liabilities including actions arising under statutes of States that have been granted an exemption from the requirements of Chapter 2 of the Truth in Lending Act.

Second, the Ives case held that even if a finance charge is composed of only one element, that single element must be individually itemized within the finance charge category. This decision prompted the interpretation adopted by the Board in November 1975 which states that Regulation Z does not require itemization of the only element of a single-component finance charge.

F. Education

Federal enforcement agencies and the exempt States are continuing their efforts to educate consumers and creditors as to their rights and responsibilities under the Truth in Lending Act.

1/ Decided July 31, 1975, U.S.C.A. for the Second Circuit (4 CCH Consumer Credit Guide ¶ 98,561).

Wyoming has added a consumer education specialist to its staff and has developed a seven-hour consumer credit educational presentation to be used in high schools, colleges, and adult education programs. Oklahoma has developed three curriculum guides and revised its Teachers' Guide to Consumer Credit which is used by more than 1600 teachers statewide. Oklahoma has also published a Dictionary of Credit Terms, as well as public information booklets highlighting the substantive provisions of that State's credit laws. Connecticut, in conjunction with the Connecticut Coordinating Council for Consumer Affairs, has established a credit counseling service to help consumers who experience credit problems.

The Division of Consumer Education of the Federal Trade Commission (FTC) has developed public service announcements that have been distributed by the FTC regional offices to radio and television stations, newspapers, and professional educators. These announcements are designed to inform consumers how to use Truth in Lending terms when shopping for credit and are distributed in both English and Spanish. The FTC's Division of Consumer Education also prepared an article entitled "Shopping for Credit Can Save You Cash," which appeared in the Yearbook of Agriculture.

The National Credit Union Administration has developed a new publication to assist credit union officials in complying with Truth in Lending and other statutes that affect credit union operations.

The Board has been deeply involved in educational efforts over the last year, with the bulk of its effort directed at informing consumers and the credit industry about the new Fair Credit Billing

Act regulations. The Board has published a revised pamphlet on Regulation Z, as amended through October 28, 1975, incorporating changes made by the Fair Credit Billing amendments and other amendments to the Regulation; the revised pamphlet also includes additions to the appendices which set forth the Fair Credit Billing Act, questions and answers on that Act, and copies of the statements of Fair Credit Billing Act rights and responsibilities which must be sent to customers under the Act.

In addition, the Board has held numerous educational sessions throughout the country to train enforcement personnel and to inform creditors of their responsibilities under the Fair Credit Billing Act. The Board sponsored a conference for representatives of the Federal Reserve Banks and other enforcement authorities to acquaint them with the regulations, and meetings have been held at each of the Federal Reserve Banks at which staff of the Banks (assisted by Board staff) explained the new regulations to creditors and answered their questions on the regulations. System staff has also participated in various radio and television presentations to make consumers aware of their rights.

During the past year, the Board's staff has also participated in the Bank Examiners' Schools and has developed an examiners' manual to be used by the examining staff of the Federal Reserve Banks in checking for Truth in Lending compliance; the Board plans to update this manual to include a section on compliance with the Fair Credit Billing Act.

The Federal Reserve Bank of San Francisco has developed a pamphlet designed to acquaint consumers with their rights under the Fair Credit Billing Act and began its distribution in the San Francisco district. The Federal Reserve Bank of Atlanta is also distributing this pamphlet.

II. COMPLIANCE

Based upon reports from eight other Federal enforcement agencies and five exempt States, the Board believes that substantial compliance with the written disclosure requirements of the Truth in Lending Act is being achieved. As has been the case in past years, the general consensus among the Federal agencies and the exempt States is that the larger creditors, who have access to legal counsel and who are thus better able to handle the complexities of the Act and Regulation, have the best record of compliance. The compliance record of the smaller creditors is not as good but continues to improve as their knowledge of the Act increases. The enforcement agencies and the States generally feel that most violations of the Act are technical in nature, resulting from inadvertent error or a lack of understanding, particularly with regard to irregular, complex transactions. However, the Federal Deposit Insurance Corporation (FDIC) has reported that it has encountered a limited number of banks which do represent supervisory problems and has, in fact, referred five cases of apparent willful and knowing violations to the Justice Department for possible criminal prosecution.

It is interesting to note that the Comptroller of the Currency, the FDIC, and the State authorities in Connecticut this year report an increased number of violations over past years, but they attribute this to better examination procedures, increased sophistication of their examiners, and greater awareness on the part of consumers reporting violations rather than to a trend toward increased non-compliance.

The FTC reports that in the area of credit advertising, full compliance with the Act is less prevalent than in other areas, although the level of compliance appears to be steadily increasing. In the past year, the FTC has begun a pilot program designed to use the Commission's enforcement powers, which have recently been strengthened by the FTC Improvement Act, to bring about a greater degree of compliance with the advertising provisions of the Truth in Lending Act.

As was noted in last year's Annual Report, the level of compliance with the Regulation's oral disclosure requirements has not been as high as it has been with the written disclosure requirements. Last year's report noted, however, that compliance with the oral disclosure requirements appeared to be improving, and the Board has not received any information during the past year which would indicate any change in this trend.

Attachments

Appendix A

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

OCT 16 1975

The Honorable William Proxmire
Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

I am writing to request the assistance of the Congress in resolving a difficult question of Congressional intent which has arisen in the Board's efforts to prescribe regulations required under Section 167 of the Fair Credit Billing Act (Title III of P.L. 93-495).

That Section, which becomes effective October 28, 1975, provides as follows:

"§ 167. Use of cash discounts

"(a) With respect to credit card which may be used for extensions of credit in sales transactions in which the seller is a person other than the card issuer, the card issuer may not, by contract or otherwise, prohibit any such seller from offering a discount to a cardholder to induce the cardholder to pay by cash, check, or similar means rather than use a credit card.

"(b) With respect to any sales transaction, any discount not in excess of 5 per centum offered by the seller for the purpose of inducing payment by cash, check, or other means not involving the use of a credit card shall not constitute a finance charge as determined under section 106, if such discount is offered to all prospective buyers and its availability is disclosed to all prospective buyers clearly and conspicuously in accordance with regulations of the Board."

Subsection (b) has been the focus of the problem. You will note that the Section does not require any merchant or card issuer to take any action. It merely provides that if a merchant chooses to offer a discount of up to 5 per cent for payment by cash, that discount is excluded from the credit finance charge for the purpose of Truth in Lending disclosures. The discount can thus be offered without making Truth in Lending disclosures at the point of sale.

While the provision appears straightforward, it has given rise to perplexing problems. For example, when merchandise with a posted price of $100 is available at that price by use of a credit card, and at $96 for cash, the differential is clearly a "discount" covered by the Section. But if an article has a posted price of $96, and is available at that price for cash, and at $100 by credit card, there is doubt as to the status of the $4.00 differential. Is the $4.00 differential a "discount" within the meaning of the Section, or is it a "premium" or "surcharge" and not a "discount"?

It has been represented to the Board that the economic effect may be largely the same in both cases and that sometimes it may be difficult or impossible in practice to distinguish one type of situation from the other. From this it has been argued that the differential in both cases is a "discount". On the other hand, it has been contended that the two may differ widely in their marketing and operating aspects, that the wording of the statute refers only to "discount", and that the price differential in the second case falls outside the statute.

On April 30, 1975, the Board published proposed regulations on the subject that would have excluded the second type of differential from the special treatment provided by the statute. On July 30, 1975, the Board published revised proposals taking the opposite position. You have urged that the "premium" or "surcharge" differential be treated as a "discount". Chairman Annunzio of the Consumer Affairs Subcommittee of the House Banking Committee has urged that it not be treated as a "discount" within the meaning of the statute.

After extended consideration the Board decided by a 4-3 vote to approve a regulation that excludes the second type of price differential from the special treatment provided by the statute. The Board unanimously agreed to seek your assistance in obtaining express legislative action that would make clear the intended application of Section 167 of the statute. The lack of such clarifying action, with attending differences of opinion as to Congressional intent, may well lead to costly litigation and impose substantial burdens on creditors, consumers and the courts.

I am sending similar letters to the Chairmen and ranking minority members of the Senate and House Banking Committees and the Consumer Affairs Subcommittees of those Committees.

Sincerely yours,

Arthur F. Burns

Appendix B

Advisory Committee

Chairman -- Dr. Richard H. Holton, Dean
School of Business Administration
University of California, Berkeley
Berkeley, California 94720

Mr. H. D. Allen
610 Edgewater Trail, NW
Atlanta, Georgia 30328

Mr. James M. Barry
Managing Director
Texas Credit Union League
3528 Forest Lane
P.O. Box 5147
Dallas, Texas 75222

Mr. Edwin B. Brooks, Jr.
President
Security Federal Savings and Loan Association
Sixth at Franklin Street
Richmond, Virginia 23219

Mr. O. C. Carmichael, Jr.
Chairman of the Board of
Associates First Capital Corporation
Associates Corporation of North America
1700 Mishawaka Avenue
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Miss Barbara A. Curran
Senior Research Attorney
American Bar Foundation
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Dr. Louis F. Del Duca
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Mr. William F. Melville, Jr.
Senior Vice President
Maryland National Bank
Baltimore, Maryland 21203

Mrs. Faith Prior
Extension Family Economist
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University of Vermont
Burlington, Vermont 05401

Mr. Robert W. Pullen
Administrative Vice President
Department of Economics
Colby College
Waterville, Main 04901

Mrs. Doris E. Saunders
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Chicago, Illinois 60628

Mrs. Lynnette Taylor
2500 Virginia Avenue, N.W.
Washington, D.C. 20037

Mr. Peter R. Thompson
President
Mid-Continent Properties, Inc.
806 Candlewood Boulevard
Piqua, Ohio 45356

Mr. Harry R. Valas
Vice President
Valas Corporation
475 South Broadway
Denver, Colorado 80209

Miss Barbara A. Zimmelman
Consultant, Urban and
Economic Development
905 Peden
Houston, Texas 77006
Telephone #: (713)526-0683

What Truth In Lending Means To You

We all use credit in one form or another:

- Some of us charge our purchases at department stores.
- Others buy gas and oil or restaurant meals on credit cards.
- We may buy a car or furniture on the instalment plan.
- Almost everyone signs a mortgage when he buys a house and sometimes when he arranges for a major home improvement.
- Occasionally we'll borrow money from a bank, finance company or other lenders for vacation use, or perhaps, to meet unexpected medical expenses.

In most cases, we have to pay a charge for the use of credit. The purpose of the Truth in Lending Law is to let consumers *know exactly what that charge is, and to let them make comparisons more readily* of the charges from different credit sources. The law therefore requires creditors to state such charges in a uniform way.

Two To Remember

The law makes it easier for you to know two of the most important things about the cost of credit. One is the *finance charge*—the amount of money we pay to obtain credit. The other is the *annual percentage rate*, which provides a way of comparing credit costs regardless of the dollar amount of those costs or the length of time over which we make payments. Both the finance charge and the annual percentage rate must be displayed prominently on the forms and statements used by a creditor to make the required disclosures.

Let's suppose you borrow $100 for one year and pay $6 interest for that money. If you have use of the entire amount for one year you are paying an *annual percentage rate* of 6 per cent. But if you repay the $106 in 12 equal monthly instalments, you do not have use of the entire amount for the full year. In fact, over the entire year you have the use on the average of only about half the full $100. So the $6 charge for credit in this case becomes an *annual percentage rate* of 11 per cent.

Some creditors levy a service charge or a carrying charge or some other charge instead of interest, or perhaps they may add these charges to the interest. Under the Truth in Lending Law they must now total all such charges, including the interest, and call the sum the *finance charge*. And then they must list the *annual percentage rate* of the total charge for credit.

The Truth in Lending Law does not fix interest rates or other credit charges. Your State may have a law setting a limit on interest rates, which would still apply.

Credit Cards

The law also protects you against unauthorized use of your credit card. In the event your credit card is lost or stolen, the maximum amount you have to pay for charges made by someone else is $50. In order for the card issuer to hold you liable for even that amount, the unauthorized use must have occurred *before* you notify the card issuer that your card is lost or stolen. You are not liable for any unauthorized use occurring after you notify the card issuer.

A card issuer also cannot hold you liable for any unauthorized use unless:

- The credit card was one you had requested or used.
- The card issuer has provided some means, such as a signature panel or photograph on the card, to identify the user as the person authorized to use the card.
- The card issuer has notified you of your potential $50 liability.
- The card issuer has provided you with a form to use in notifying him of loss or theft of your card.

The law also prohibits card issuers from sending you a credit card unless you requested or applied for it. However, a card issuer may send you, without your request, a new card renewing one you requested or used previously.

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Advertising

The law also regulates the advertising of credit terms. It says that if a business is going to mention one feature of credit in its advertising, such as the amount of downpayment, it must mention all other important terms, such as the number, amount, and period of payments that follow. If an advertisement states "Only $2 down," it must also state, for example, that you will have to pay $10 a week for the next two years. Here again, the intent is to provide you with full information, so that you can make informed decisions.

Cancellations

Another important provision of the law is designed for your protection in case your home is used as security in a credit transaction. This frequently occurs when a major repair or remodeling job is done on your home or when you take out a "second mortgage". When you enter into a credit transaction in which your home is used as security, the law gives you three business days to think about it and to cancel the transaction during that period if you wish. The creditor must give you *written notice of your right to cancel,* and if you decide to cancel the transaction, you have to *notify him in writing.*

When you have this right of cancellation, a contractor cannot start work until the three days are up. You may give up your right to cancel and get the work started without the three-day wait, if you notify the contractor in writing that you face a real financial emergency and need the credit immediately to finance repairs necessary to avoid danger to you, your family, or your property.

The right of cancellation does not apply to a first mortgage to finance the purchase of your home.

Other Provisions

The law provides criminal penalties for willful violators, as well as civil remedies. You as an individual may sue if a businessman fails to make the required disclosures. You may sue for twice the amount of the finance charge—for a minimum of $100, up to a maximum of $1,000—plus court costs and reasonable attorney's fees.

The law, and the regulations issued by the Board of Governors of the Federal Reserve System to carry it out, contain many other detailed provisions. Businessmen extending credit should of course familiarize themselves with all of these, to make sure they are complying with the law. Creditors, as well as consumers, who want to go into the matter more deeply may request the free pamphlet, "What You Ought to Know About Truth in Lending," from any Federal Reserve Bank or from the Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

To Find Out More

A number of Federal agencies, and in some cases, even State agencies, are responsible for enforcing Truth in Lending, depending upon the type and location of the company extending credit. If you have any questions about Truth in Lending in connection with a particular credit transaction, you may write to any Federal Reserve Bank or to the Board of Governors of the Federal Reserve System, Washington, D. C. 20551. Be sure to identify the name and location of the company extending credit so that your letter can be brought to the attention of the appropriate enforcement agency.

Board of Governors of the Federal Reserve System
Washington, D.C. 20551

NOV 19 1974

Honorable Jeffrey M. Bucher
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Bucher:

This is in response to your letter of October 15, 1974, asking for information with respect to the following matters in connection with the preparation of the Board's annual report to Congress under the Truth in Lending Act:

(1) The administration of the FDIC's enforcement function under the Act during the last year, including methods of enforcement and any significant problems encountered with that enforcement;

(2) An assessment of the extent to which compliance is being achieved by creditors subject to FDIC's enforcement authority;

(3) A brief description of any efforts FDIC has undertaken during the past year designed to provide information and education on Truth in Lending to creditors under FDIC's jurisdiction or their customers; and,

(4) Any suggestions or recommendations which FDIC would care to make for changes in Regulation Z or in the Truth in Lending Act.

During 1974, FDIC revised its procedures for reporting violations of the Truth in Lending Act and Regulation Z. Prior to this time, FDIC examiners had noted Truth in Lending violations discovered during the course of an examination in a letter-report addressed to the board of directors of the bank examined. On January 1, 1974, FDIC commenced a program of selective withdrawal from examination of insured nonmember banks in the states of Georgia, Iowa and Washington. As a part of the program in these three states, and

in the states of Maryland and Virginia on an experimental basis, FDIC examiners began conducting separate examinations of insured nonmember banks for compliance with Truth in Lending and other laws. These separate compliance examinations entailed completion of a new Truth in Lending Compliance Report. On September 9, 1974, the practice of completing the Truth in Lending Compliance Report was extended to the remaining 45 states although in these states the separate Report is completed in conjunction with the regular examination of the subject bank. At the time the practice was extended, our examiners were furnished with a revised and expanded Regulation Z Examination Guide for use as an aid in the examining process. Violations and deficiencies now indicated in the completed Compliance Reports are followed up as before by our Regional Offices to assure that appropriate corrective measures are taken.

Complaints and inquiries from consumers and bankers continue to be processed in our Regional Offices with assistance as necessary from the Washington Office. Whenever appropriate, visitations or other contacts with the banks are made to investigate possible Truth in Lending violations and to obtain compliance. As a rule, every effort is made through these informal contacts to achieve compliance on a voluntary basis before formal administrative proceedings are initiated to compel compliance. Overall, we have not encountered any significant problems in the administration of our Truth in Lending enforcement function.

During the period from September 16, 1973 through September 15, 1974, FDIC examiners conducted 7,472 examinations of insured nonmember banks for compliance with the Truth in Lending Act and Regulation Z. Apparent violations were discovered and reported in approximately 10.5% of the examinations conducted. This percentage figure represents a rise of 3.3% over a comparable period covered in our last report and is believed to be the result of the new procedures instituted for reporting violations. While many different types of violations were reported, the following were frequently cited: failure to disclose the finance charge, incorrect determination of the finance charge, failure to disclose the annual percentage rate, incorrect determination of the annual percentage rate, and failure to furnish notice of the right to rescind in appropriate cases. Reasons often stated for noncompliance include: misinterpretation of the law, clerical error, oversight, and carelessness. A small number of banks appear to represent a greater-than-normal supervisory problem in obtaining compliance with Truth in Lending requirements. These banks are, of course, receiving

continuing follow-up attention by the staffs of the various Regional Offices. One case of apparently willful and knowing violation of the Truth in Lending Act was referred to the appropriate U.S. Attorney for possible criminal prosecution. FDIC issued no cease-and-desist orders against banks for violations of the Truth in Lending Act, although one such order issued in 1973 remains outstanding.

FDIC endeavors to provide information and education to bankers and indirectly to consumers, through the examination process itself. Bankers frequently discuss questions they may have regarding banking law and other subjects with our examiners or direct these questions to the Regional Offices. Information is also provided directly to consumers in response to complaints and inquiries. In addition, FDIC continues to provide all insured nonmember banks within its enforcement jurisdiction with all amendments and official interpretations of Regulation Z.

We have no suggestions or recommendations for changes in either the Truth in Lending Act or Regulation Z at this time.

Sincerely,

(Signed) Frank Wille
Frank Wille
Chairman

NOV 16 1973

Honorable Jeffrey M. Bucher
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Mr. Bucher:

This is in response to your letter of October 9, 1973, asking for information with respect to the following matters in connection with the preparation of the Board's annual report to Congress under the Truth in Lending Act:

(1) The administration of the FDIC's enforcement function under the Act during the last year, including methods of enforcement and any significant problems encountered with that enforcement;

(2) An assessment of the extent to which compliance is being achieved by creditors subject to this agency's enforcement authority;

(3) A brief description of any efforts this agency has undertaken during the past year designed to provide information and education on Truth in Lending to creditors under our jurisdiction or their customers; and,

(4) Any suggestions or recommendations which the FDIC would care to make for changes in Regulation Z or in the Truth in Lending Act.

Our field examiners continue to check for compliance with the Act and Regulation Z as a regular part of our bank examination program. Examiners utilize the Regulation Z Checklist developed by the Federal banking agencies to assist them in performing this function. Violations are discussed with management during the examination and a detailed letter-report is sent to the bank's board of directors. These reports are followed up by the Regional Offices to assure that corrective measures are taken. Every effort is made to achieve compliance on a voluntary basis before administrative action is recommended. Complaints and inquiries from consumers and bankers continue to be processed in our Regional Offices and, to some extent, in our Washington Office. Whenever appropriate, visitations or other contacts with the banks are made to investigate possible violations of the Act or Regulation Z and to obtain compliance.

During the period September 16, 1972 through September 15, 1973, our examiners completed 7,900 bank examinations and wrote 565 letter-reports detailing violations of Regulation Z to the banks' boards of directors. Violations frequently cited were failure to disclose the finance charge, incorrect determination of the finance charge, failure to disclose the annual percentage rate, incorrect disclosure of the annual percentage rate, and failure to furnish the notice of the right of rescission where applicable. The number of letter-reports written represents 7.2% of the number of banks examined, a decrease of approximately 2% from the comparable period covered in our last report. Our examiners have also written six criminal letter-reports which were transmitted to the appropriate United States Attorney citing apparently willful violations of the Truth in Lending Act and have written 12 letter-reports to other Federal agencies detailing violations by creditors under their enforcement jurisdiction. During 1973, the FDIC issued one Cease and Desist Order against a bank for violations of the Truth in Lending Act.

We recently surveyed our Regional Offices to determine the extent of compliance by banks within our enforcement jurisdiction under the Truth in Lending Act. Of the banks in which violations of Regulation Z have been reported by letter-report through September 15, 1973, the survey indicated that 36 banks were receiving follow-up action because the Regional Director was not satisfied with the bank's compliance with the Truth in Lending Act.

The FDIC continues to furnish all banking offices of State nonmember banks, as well as noninsured banks, and our field personnel with copies of all amendments, interpretations, and other pertinent material. Each Regional Office receives a copy of the Public Information Letters prepared by the Board's staff. We continue to supplement our examiners' field training in Truth in Lending matters by courses at our Training Center and through workshops during our Regional Conferences. Our examiners provide information and education to bankers--and indirectly to consumers--through the examination process itself by discussing and answering questions raised. Information is also provided directly to consumers in response to complaints and inquiries.

We support generally the various technical amendments proposed by the Board of Governors in Appendix D of its 1972 Annual Report to Congress and, in particular, the recommendation that a creditor's class action liability under the Truth in Lending Act be limited to the greater of $50,000 or 1% of net worth.

Sincerely,

(Signed) Frank Wille

Frank Wille
Chairman

Mr. Frederic Solomon, Director
Division of Supervision and Regulation
Board of Governors of the Federal Reserve System
Washington, D. C. 20551

Dear Mr. Solomon:

This is in response to your letter of September 29, 1972, asking that we furnish information with respect to the following matters for use in the Board's annual report to Congress under the Truth in Lending Act:

1. The administration of our agency's enforcement function under the Act, including methods of enforcement and any significant problems encountered with that enforcement;

2. An assessment of the extent to which compliance is being achieved by creditors subject to our enforcement authority;

3. A brief description of any efforts our agency has undertaken during the past year designed to provide information and education on Truth in Lending to creditors under our jurisdiction or to their customers;

4. Suggestions or recommendations for changes in Regulation Z or in the Truth in Lending Act.

Our field examiners continue to check for compliance with the Act and Regulation Z as a regular part of their examination procedure. The Regulation Z checklist developed by the Federal banking agencies is utilized in this function. Violations discovered are brought to the attention of management during the examination and detailed in letter-reports to the boards of directors of the banks involved. These are followed up by our Regional Offices to assure that appropriate corrective action is taken. If it appears that formal administrative action may be necessary to obtain compliance, the matter is referred to the Compliance Unit of our Legal Division for appropriate attention. Our Regional

Offices also handle the bulk of complaints and inquiries received from consumers and banks. When necessary, a visitation or other contact is made to determine whether violations of the Act or Regulation Z exist and to obtain compliance with this law.

Over a period from September 16, 1971 through September 15, 1972, our examiners examined 7,862 banks. During this period, 713 letter-reports citing violations of Regulation Z were written to the boards of directors of banks and 14 criminal letter-reports citing apparently willful violations were written to the appropriate United States Attorneys. In addition, 24 letter-reports setting forth apparent violations on the part of creditors committed to the enforcement jurisdiction of some other Federal agency were written to the appropriate agency. Our Regional Offices also handled 49 inquiries from banks and consumers.

The number of letter-reports written to the boards of directors of banks represents 9.1% of the number of banks examined, an increase of approximately 3% over a comparable period covered in our last report. This relative increase, however, is largely the result of the increased use of the letter-report by our examiners in situations where informal discussion alone had previously been used. While many different types of violations were reported, the following violations were frequently cited: failure to disclose the finance charge, incorrect determination of the finance charge, failure to disclose the annual percentage rate, incorrect computation of the annual percentage rate, failure to furnish the notice of the right to rescind in appropriate cases, and failure to comply with the advertising provisions of Regulation Z. Reasons often stated for noncompliance include: misinterpretation of the law, clerical error, oversight, and carelessness. A small number of banks have been reported as involving a greater-than-normal supervisory problem in obtaining compliance. These are being actively followed up by our Regional Directors who report that most banks in their Regions are in substantial compliance.

Our Division of Bank Supervision endeavors to provide information and education to bankers, and indirectly to consumers, through the examination process. Bankers frequently discuss questions they may have regarding the requirements of Truth in Lending with our field force or direct these questions to our Regional Office. Information is, of course, also supplied directly to consumers in response to inquiries.

Our Legal Division staff has also begun preparation of a draft of a proposed "FDIC Information and Consumer Guide" to acquaint the public with the full range of our insurance and consumer-oriented functions. It is contemplated that this publication will include a description of a consumer's rights under the Truth in Lending Act as well as a description of our enforcement function under that Act.

We suggest the following changes be made in Truth in Lending either through amendment to the Act or, where possible under the Board's existing authority, through amendment to or formal interpretation of Regulation Z:

1. Agricultural credit should be exempted from the Act's coverage. We feel this type of credit is more akin to business credit, which is presently exempt, than it is to consumer credit.

2. The potential liability of purchasers of dealer paper should be clarified. At present, it appears that such purchasers may be liable for improper disclosure made by a dealer. This possible liability should be resolved so that purchasers may know what their responsibilities are when accepting dealer paper.

3. Disclosure of add-on or discount rates in advertisements should be specifically prohibited. This prohibition, moreover, should extend to the disclosure of consumer loan terms over the telephone in response to inquiries.

Sincerely,

(Signed) Frank Wille

Frank Wille
Chairman

Honorable J. L. Robertson
Vice Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Robertson:

Pursuant to your request of October 12, 1971, we are hereby submitting our annual report regarding the Consumer Credit Protection Act and Regulation Z. The report covers (a) the administration of the Corporation's enforcement function and significant problems encountered, (b) an assessment of the extent to which compliance is being achieved by creditors, (c) the efforts we have taken to provide information and education on Truth in Lending to creditors, and (d) suggestions regarding changes in the Act or amendments to the Regulation.

Our field examiners check for compliance with the Act and Regulation as a regular part of our examination program of insured State nonmember banks. To assist them in performing this function, they utilize the Regulation Z Checklist developed by the Federal banking agencies. In addition, complaints and inquiries received from consumers, competitors and other Federal enforcement agencies are handled by our Washington and Regional Offices. When deemed necessary, visitations are made to the banks involved to investigate possible violations. We have encountered no significant problems in enforcing Truth in Lending. However, problems have been encountered by creditors, as well as consumers, because of the complexity of the Regulation. Difficulty in interpretation has also arisen because certain items (e.g., dealer paper) are not specifically mentioned or are only referred to in an indirect manner.

Of the 8,100 banks we examined during the period since our previous annual report, letter-reports addressed to the banks' boards of directors

citing violations were prepared in 464, or slightly less than 6%, of the banks. While many different types of violations were reported, violations frequently noted included failure to grant the right to rescind, use of improper forms, and incomplete disclosures with respect to dealer paper. The principal reasons listed for the existence of the violations were misinterpretation or misunderstanding of the provisions of the Regulation. In some cases, clerical errors, carelessness and unfamiliarity were cited as the reasons. We have also forwarded six letter-reports to the appropriate United States Attorney as a result of apparently willful or knowing violations. We have received a limited number of complaints or inquiries from outside sources. Inquiries received from banks generally involved determination of compliance of their forms or advertisements.

Members of our staff continue to work closely with members of the Board's Truth in Lending staff and consult freely regarding matters of interest. In May of 1971, we responded to a questionnaire received from the National Commission on Consumer Finance regarding the adequacy and effectiveness of Truth in Lending. The survey supplemented and updated a questionnaire which we completed for the Commission during the middle of 1970. Our field personnel have attended discussions on Truth in Lending at our Regional Office Conferences and at seminars conducted by the Federal Reserve banks and State banking associations. We continue to furnish all banking offices of State nonmember commercial and mutual savings banks, as well as noninsured banks, and our field personnel with copies of all amendments, interpretations and other pertinent material. Each of our Regional Offices also receives a copy of the Board's Public Information Letters.

Suggestions for changes in, amendments to, or interpretations of Truth in Lending are listed below for your consideration:

1. We feel that agricultural loans should be exempted from the provisions of the Act just as credit transactions involving extensions of credit for business or commercial purposes are exempted. It does not appear consistent to exempt credit transactions of various small businesses while similar transactions for agricultural purposes are covered.

2. (a) We suspect that some banks continue to quote orally only the add-on or discount rate instead of the comparable annual percentage rate. The advertising provisions of the Regulation should be changed to cover oral quotations, whether in person or by telephone, in the same manner that written advertisements are covered.

   (b) The most frequently noted advertising violation involves advertisements with an add-on or discount rate stated in

addition to or in place of the annual percentage rate. The advertising provisions of the Regulation should be amended to clearly indicate that such rates may not be included in any advertisement regardless of the circumstances.

3. A recurring problem noted involves the application of the provisions of the Regulation regarding dealer paper. The Regulation should be amended to clearly indicate how it applies to dealer paper. More specifically, it should indicate its effect in situations where the bank is (a) a creditor and joint disclosures are made, (b) a creditor and separate disclosures are made, and (c) an assignee. In addition, the Regulation should indicate whether the bank or the dealer is responsible for correcting and following up on disclosure violations made by the dealer.

4. Borrowers have an indefinite period during which they have the right to rescind certain transactions involving a security interest in real property if all of the required disclosures are not made. An amendment is needed specifying a maximum period during which such transactions can be rescinded.

5. An additional change we feel would be helpful involves the format of the Act, Regulation and interpretations rather than the content. We are cognizant of the Board's efforts in writing the Regulation; however, difficulty in implementing and interpreting Truth in Lending has been experienced by banks and examining personnel because of the large volume of material that they must be familiar with and the fact that each new addition is prepared as a separate pamphlet. While it may be desirable for creditors to have all current Truth in Lending material available in one or two separate bound pamphlets, in actual practice, because of new additions, creditors soon have a number of pamphlets to which they must refer. It is recommended consideration be given to making available, at an early date, all pertinent Truth in Lending material in loose-leaf form so that it can be readily updated by the user. Presentation in loose-leaf form should make the material more workable and reduce the need for periodic reprinting of various portions of the material into separate pamphlets. As you may know, the Corporation recently contracted with Prentice-Hall, Inc., for the preparation, publication, and distribution of a loose-leaf reporting service which contains, among other things, the Federal Deposit

Insurance Act, the Corporation's rules and regulations, and certain other Federal statutes and regulations which affect the operations of insured banks. One section of the service, entitled "Consumer Protection," contains the full amended text of the Consumer Credit Protection Act, Regulation Z, Supplements to Regulation Z, and the Board of Governors' explanations and interpretations of Regulation Z. The Board's Public Information Letters have not yet been incorporated into the service. While our own staff is not totally satisfied with the arrangement which Prentice-Hall selected for this section of the service, we hope to persuade Prentice-Hall within the next few weeks to republish and redistribute all Regulation Z materials included in the service in a more orderly, more readily usable format. Copies of the service, which will be supplemented at regular two-month intervals, were distributed to all insured banks, to all State bank supervisors, to certain State and national trade associations, and to all of the Corporation's examiners on December 27, 1971. Copies have also been furnished to those members of the staff of the Board of Governors and of the Comptroller of the Currency who have specifically requested them. The Board of Governors and the Comptroller may wish to arrange to have copies of that section of the service which relates to consumer protection distributed to all of their examining personnel.

We hope this information will be helpful to you.

Sincerely,

(Signed) Frank Wille

Frank Wille
Chairman

December 21, 1970

Honorable J. L. Robertson
Vice Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Robertson:

In accordance with your request, we are submitting our annual report relating to the Truth in Lending Act. The report covers the administration of and any significant problems encountered in this Corporation's enforcement function, an assessment of the extent to which compliance is being achieved, an outline of our efforts to provide information and education to creditors and their customers, and suggestions as to amendment of the Act or Regulation Z.

Checking for compliance by the State nonmember banks under our jurisdiction is part of our examination program. Possible violations brought to our attention from other sources also are carefully investigated. Compliance generally has been favorable with no violations noted in 95% of the 7,599 banks examined and 35 complaints investigated during the 12 month interim following our previous annual report. The principal difficulty in the 358 banks where violations were noted resulted largely from misinterpretation and unfamiliarity with specific sections of the Regulation; however, 10 were reported as willful or knowing violations under Section 112 of the Act. Violations arising from purchase of dealer paper at five other banks were reported to the Federal Trade Commission. No specific enforcement problems have been encountered.

During the past year, members of our staff met with members of the Board's Truth in Lending staff and consulted freely in matters of interest. We have responded to a survey relating to the adequacy and effectiveness of the Act by the National Commission on Consumer Finance. Truth in Lending has been a matter of discussion at several of our Regional Office Conferences, and each Regional Office has been provided with copies of the Board's Public Information Letters. Our personnel are provided with pertinent information and material as it is received in order that we may continue to adequately administer the provisions of the Act and Regulation.

In addition to providing in-bank counsel during examinations, our Regional and Washington Office staffs have processed some 145 written inquiries and a number of telephone requests for information. In this respect, we note a sharp decrease in requests for information. Members of our staff are available upon request for Truth in Lending programs, and in this connection, we provided a participant in the Truth in Lending discussion at the Kansas Bankers Association's Bank Management Clinic. Insured State nonmember banks and uninsured banks are being provided all pertinent information concerning the Regulation and Act, including amendments, interpretations, and exemptions. The large number of amendments and interpretations issued from time to time since enactment have proved helpful but present some difficulty in the daily use of the material. Therefore, we recently provided each such banking office with the latest edition of the booklet "What You Ought To Know About Federal Reserve Regulation Z" and the new pamphlet containing subsequent amendments and interpretations to relieve this situation. Earlier in the year, we discussed with the Board's staff the desirability of making the pamphlet "What Truth In Lending Means To You," which was designed to be used in connection with your consumer-oriented filmstrip, available without cost for bank distribution to acquaint their customers with the major provisions of the Act. After forwarding a copy to each uninsured and insured State nonmember bank, orders were received for some 800,000 copies from over 2,100 banks.

There are several areas that might be given consideration for possible amendment to the Act or Regulation. Much sentiment has been expressed for exclusion of agricultural loans from the provisions of the Act just as loans for other business purposes are excluded. The fact that credit extended to certain types of small businessmen is exempt, while credit to the farm operator, managing tens of thousands of dollars of capital investment, requires the same disclosure as any small personal loan, lends support to the proposed exclusion. While the amendment issued late last year adding Section 226.8(p) provides some relief where banks extend agricultural credit under a written agreement, many smaller banks do not operate on this basis. The recommendation contained in the Board's 1969 Annual Report to Congress to exempt agricultural credit in excess of an appropriate amount from the provisions of the Act would provide further relief, and we hope such a bill will be the subject of early hearings in the 92nd Congress.

Sections 125 of the Act and 226.9 of the Regulation grant a borrower, where there is a security interest in real property, the right to rescind certain transactions until midnight of the third business day following consummation of the transaction or delivery of all required disclosures, whichever is later. Conceivably, if all disclosures are not made, the right to rescind would extend indefinitely, and effectively "cloud" the title to the real property. While it is recognized that the right to rescind is granted for the protection of the borrower, he also should have the right to convey clear title to his property in an instance where all disclosures were not made but there is no interest in rescinding the transaction. Accordingly, this part of the Act could be amended to establish an ultimate expiration for the period of rescission, to provide for subsequent waiver under such circumstances, or restrict the rescission right only to the person originally granted the privilege during his ownership of the real property.

Questions have arisen on numerous occasions where banks purchase consumer paper from dealers with respect to their duties and responsibilities in determining whether proper disclosures have been made, who is required to make disclosures, and their attendant liability. While an amendment may not be necessary in this instance, it would be helpful if the matter were clarified.

Difficulty continues to be experienced in determining whether credit to an individual is consumer credit or for business purposes where the proceeds of the loan are used for an income-producing purpose relating to other than his principal source of income. The "single business" theory is understood to have been relaxed to recognize that an individual may have more than one source of income for the purposes of Regulation Z. Since this type of loan frequently is found in banks, some clarification would be beneficial to assist creditors in determining whether it should be considered for investment (consumer) purposes or business purposes.

We trust the foregoing will be helpful in compiling your report to Congress.

Sincerely,

Frank Wille

Frank Wille
Chairman

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Honorable J. L. Robertson
Vice Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Robertson:

In accordance with your request, we are submitting our report relating to Regulation Z and the Truth in Lending Act. The report covers the administration of this Corporation's enforcement function and any significant problems encountered, an assessment of the extent to which compliance is being achieved, and suggestions as to amendment of the Regulation or Act.

During February 1969, the executive officers of insured State nonmember banks were provided a copy of the pamphlet "What You Ought to Know About Federal Reserve Regulation Z," notified of the Regulation's effective date, informed of the Corporation's adminfstrative enforcement responsibilities, and requested to direct any inquiries concerning the Regulation to the FDIC Regional Director in their respective Region. Shortly thereafter, informative material was provided each banking office under our supervision. Regional Directors were advised of their role in responding to inquiries or referring the more difficult questions to the Washington office for direct reply. Procedures to be followed were outlined to the Regional Directors, who were requested to issue to their field personnel appropriate instructions, including any specific precautions necessary due to unusual situations. A Checklist was developed for use by field personnel during bank examinations in investigating for compliance with Regulation Z. This Checklist also was distributed to all State banking authorities.

In addition, Regional Directors were requested to provide interim reports to enable the Corporation to inform the Board of Governors of specific problem areas and the extent of compliance on a quarterly basis. No significant enforcement problems have been encountered to date, and the principal role of our staff has been educational through personal contact at the field level and formal response to individual problems at the office level in each Region and in Washington.

Despite the newness of Regulation Z, the unfamiliar terminology, and the problems encountered in daily application, the extent of compliance has been favorable with no violations noted in 2,164 of the banks

examined since July 1. The principal difficulty in the remaining 71 banks resulted from misinterpretation and unfamiliarity with the Regulation. Five infractions have been reported as criminal violations under Section 112 of the Act, and one violation arising from the purchase of dealer paper has been reported to the Federal Trade Commission.

We have the following suggestions regarding possible amendment of the Regulation or Act. Sections 125 of the Act and 226.9 of the Regulation grant an obligor, where there is a security interest in real property, the right to rescind certain transactions until midnight of the third business day following consummation of the transaction or delivery of all required disclosures, whichever is later. Conceivably, if all disclosures are not made, the right to rescind would extend indefinitely, and effectively "cloud" the title to the real property. It is recognized the right of rescission is granted for the protection of the obligor, but the obligor at some future time also should have the right to convey clear title to his property in the event he did not receive proper disclosures but is not interested in rescinding. Therefore, it is believed consideration should be given to amendment of the Act and Regulation to establish an ultimate expiration for the period of rescission.

The difference between personal (consumer) credit and investment (business) credit is not clear. This is particularly evident in the case of multi-unit apartment buildings in which the borrower resides. Occasionally, the theory has been advanced that an individual can engage in only one business; therefore, any credit relating to other ventures or income-producing investments is of a personal nature. Since such credit is found regularly in banks, it is believed that clarification through an opinion or establishment of guidelines would permit uniformity in determining whether a specific credit is covered by the provisions of Regulation Z.

There has been considerable discontent with the inclusion of agricultural loans within the scope of Regulation Z. The recently adopted amendment to the Regulation provided some relief in the case of certain types of agricultural loans. However, the Board may wish to consider additional action, possibly in the form of a suggested change in the Act.

We will be happy to provide additional information if you consider it desirable.

Sincerely,

(Signed) K. A. Randall

K. A. Randall
Chairman

APPENDIX 6.—FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC

TRUTH IN LENDING COMPLIANCE REPORT

TO THE

COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE

SEPTEMBER 16, 1976

September 10, 1976

Honorable Benjamin S. Rosenthal
Chairman
Commerce, Consumer and Monetary
Affairs Subcommittee
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Rosenthal:

This is in response to your letter of August 10, 1976, requesting the following information on a state-by-state basis for each of the following states: Maryland, Delaware, New Jersey, Pennsylvania, New York, Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine:

(1) the number, type (commercial bank, savings bank, or other), and average size (year-end 1975 total assets) of the institutions examined by FDIC from March 1, 1975, through July 31, 1976;

(2) the number of negative responses to each of items 1 through 9 of the FDIC Regulation Z compliance reports (FDIC 6500/55 (12-74)) completed in the course of examining the institutions enumerated in (1) above;

(3) the total number of loan transactions and dollar amounts involved if known, cited in the Comments section of the FDIC Regulation Z compliance reports (FDIC 6500/55 (12-74)) completed in the course of examining the institutions enumerated in (1) above; and

(4) what specific action was taken by the FDIC to rectify the situation with respect to each of the transactions enumerated in (3) above.

Enclosed are charts depicting the information requested by items (1) and (2). In a number of cases, the same banks were examined more than once during the relevant time period. The results of the second and third examinations are depicted separately on pages 2 and 3 of the enclosure.

Our staff has discussed items (3) and (4) with your staff and, while we are not providing this information at the present time, we will comment further on these matters in our statement before your committee later this month.

Very truly yours,

Robert E. Barnett

Robert E. Barnett
Chairman

Enclosure

TRUTH IN LENDING COMPLIANCE EXAMINATIONS CONDUCTED BY THE FDIC
IN THE STATES LISTED FOR
THE PERIOD FROM MARCH 1, 1975 THROUGH JULY 31, 1976

	AVERAGE SIZE OF BANKS EXAMINED*		NUMBER OF BANKS EXAMINED AT LEAST ONCE DURING THE PERIOD**		RESULTS OF INITIAL EXAMINATION-- NUMBER OF REPORTS CITING VIOLATIONS		NUMBER OF NEGATIVE RESPONSES TO EACH OF THE ITEMS 1 THROUGH 9 ON THE FDIC REGULATION Z COMPLIANCE REPORT (Form 6500/55)																			
							1		2		3a		3b		4		5		6		7		8		9			
	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C
CONNECTICUT	143,807	68,175	63	42	5	15	-	3	2	7	1	1	-	3	2	11	-	2	2	5	-	-	-	-	-	-	-	-
MAINE	54,817	42,423	32	22	1	7	-	2	1	4	-	-	-	-	1	5	-	1	-	1	-	-	-	-	-	-	-	-
MASSACHUSETTS	284,148	50,614	14	53	1	22	-	-	-	7	-	1	-	2	1	17	-	2	-	1	-	2	-	-	-	-	-	-
NEW HAMPSHIRE	65,973	23,121	28	29	11	18	3	-	7	4	-	-	-	1	9	15	-	2	7	6	-	-	-	-	-	-	-	-
RHODE ISLAND	223,008	125,777	6	9	0	1	-	-	-	1	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-
VERMONT	93,025	78,497	6	14	2	10	-	2	-	7	-	-	-	-	2	7	-	1	-	1	-	1	-	-	-	-	-	-
NEW JERSEY	284,470	53,649	19	67	1	6	-	1	-	-	-	-	-	-	1	6	-	2	-	6	-	1	-	-	-	-	-	-
NEW YORK	580,716	111,861	114	45	15	8	2	-	3	-	-	1	-	-	13	4	-	4	2	-	-	-	-	-	-	-	-	-
DELAWARE	-	213,536	-	12	-	9	-	1	-	2	-	-	-	-	-	8	-	-	-	3	-	1	-	-	-	-	-	-
MARYLAND	365,474	67,697	2	62	1	28	-	5	-	5	-	-	-	-	-	16	-	2	-	13	1	1	-	-	-	-	-	-
PENNSYLVANIA	1,051,167	98,772	8	123	1	77	-	8	-	9	-	3	-	5	1	57	-	1	2	1	-	3	-	1	-	5	-	-

*In thousands of dollars based on total assets as of 12-31-75.
**Based on compliance reports received in the Washington Office through 9-3-76.

C = Commercial banks
M = Mutual savings banks

	NUMBER OF BANKS EXAMINED TWICE DURING THE PERIOD		RESULTS OF SECOND EXAMINATION-- NUMBER OF REPORTS CITING VIOLATIONS		NUMBER OF NEGATIVE RESPONSES TO EACH OF THE ITEMS 1 THROUGH 9 ON THE FDIC REGULATION E COMPLIANCE REPORT (Form 6500/55)																	
					1		2		3a		3b		4		5		6		7		8		9	
	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C
CONNECTICUT	21	12	2	5	1	-	1	3	-	-	-	-	2	4	-	-	1	1	-	-	-	-	-	-
MAINE	11	6	1	1	-	-	1	1	-	-	-	-	1	1	-	-	-	-	1	-	-	-	-	-
MASSACHUSETTS	3	28	2	9	1	-	-	1	-	2	-	2	1	5	-	1	-	4	1	-	-	-	-	-
NEW HAMPSHIRE	2	2	1	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-
RHODE ISLAND	5	7	1	1	-	-	1	-	-	1	-	1	1	-	-	-	-	-	-	-	-	-	-	-
VERMONT	4	4	2	2	-	1	-	-	-	-	-	-	2	2	-	-	-	-	-	-	-	-	-	-
NEW JERSEY	2	17	1	8	1	-	-	1	-	2	-	1	1	6	-	-	-	3	-	1	-	-	-	-
NEW YORK	31	16	7	5	1	1	-	1	-	-	-	-	4	5	-	1	3	-	-	-	-	-	-	-
DELAWARE	-	1	-	1	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-
MARYLAND	3	17	-	6	-	2	-	1	-	-	-	-	-	4	-	-	-	4	-	-	-	-	-	-
PENNSYLVANIA	-	26	-	8	-	-	-	-	-	-	-	-	-	4	-	3	-	3	-	-	-	-	-	1

	NUMBER OF BANKS EXAMINED THRICE DURING THE PERIOD		RESULTS OF THIRD EXAMINATION-- NUMBER OF REPORTS CITING VIOLATIONS		NUMBER OF NEGATIVE RESPONSES TO EACH OF THE ITEMS 1 THROUGH 9 ON THE FDIC REGULATION Z COMPLIANCE REPORT (Form 6500/55)																			
					1		2		3a		3b		4		5		6		7		8		9	
	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C	M	C
CONNECTICUT	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MAINE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MASSACHUSETTS	-	2	-	2	-	-	-	1	-	-	-	1	-	2	-	-	-	-	-	-	-	-	-	-
NEW HAMPSHIRE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RHODE ISLAND	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VERMONT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NEW JERSEY	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NEW YORK	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DELAWARE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MARYLAND	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PENNSYLVANIA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF THE CHAIRMAN

November 26, 1975

Mr. Frederic Solomon
Assistant to the Board and
Director, Office of Saver
and Consumer Affairs
Federal Reserve System
Room 2114
Washington, D. C. 20551

Dear Mr. Solomon:

This is in response to your letter of October 23, 1975, requesting information with respect to the following matters in connection with the preparation of the Board's annual report to Congress under the Truth in Lending Act:

(1) The administration of the FDIC's enforcement function under the Act during the last year, including methods of enforcement and any significant problems encountered with that enforcement;

(2) An assessment of the extent to which compliance is being achieved by creditors subject to FDIC's enforcement authority;

(3) A brief description of any efforts FDIC has undertaken during the past year designed to provide information and education on Truth in Lending to creditors under FDIC's jurisdiction or their customers; and

(4) Any suggestions or recommendations which FDIC would care to make for changes in Regulation Z or in the Truth in Lending Act.

During 1975 the Corporation continued to utilize a separate Regulation Z - Truth in Lending Compliance Report on a nationwide basis. This Report is prepared as part of a separate examination in the states of Georgia, Iowa, and Washington under the FDIC's program of selective withdrawal from examination. In all of the remaining states this

Report is prepared in connection with the regular examination. The Regulation Z - Truth in Lending Compliance Report and related instructions are currently being revised to incorporate the new Fair Credit Billing Act amendments and other recent amendments to the Truth in Lending Act and Regulation Z. Violations or deficiencies detailed in these Compliance Reports are followed up by the Regional Offices to assure that corrective measures are taken.

Complaints and inquiries from consumers and bankers are processed through the Office of Bank Customer Affairs and the Regional Offices. Whenever appropriate, visitations or other contacts with the banks are made to investigate possible Truth in Lending violations and to obtain compliance. As a rule, every effort is made through these informal contacts to achieve compliance on a voluntary basis before formal administrative proceedings are initiated to compel compliance. Overall, we have not encountered any significant problems in the administration of the Truth in Lending enforcement function.

During the period from September 16, 1974 through September 30, 1975, FDIC examiners conducted 7,743 examinations of insured nonmember banks for compliance with the Truth in Lending Act and Regulation Z. Apparent violations were discovered and reported in approximately 28.5% of the examinations conducted. The relative increase in the number of reports citing Truth in Lending violations for this period over the previous reporting period is believed to be the result of utilizing Compliance Reports for detecting and reporting violations. The following types of violations were most frequently cited: failure to disclose either the finance charge or the annual percentage rate, incorrect determination of the finance charge or the annual percentage rate, and failure to furnish the notice of right of rescission in appropriate cases. Reasons often stated for non-compliance include: misinterpretation of the law, clerical error, oversight, and carelessness.

A limited number of banks appear to represent supervisory problems regarding their compliance with Truth in Lending. In the last semi-annual communication to the Regional Offices dated July 11, 1975, 56 banks were listed as representing possible supervisory problems with respect to Truth in Lending. These banks are, of course, receiving continuing follow-up attention by staff of the various Regional Offices. Five cases of apparently willful and knowing violation of the Truth in Lending Act were referred to the appropriate U. S. Attorney for possible criminal prosecution. FDIC issued no cease-and-desist orders against banks for violations of the Truth in Lending Act during this reporting period, although one such order issued in 1973 remains outstanding.

The Corporation endeavors to provide information and education to bankers and indirectly to consumers through the examination process itself. Bankers frequently discuss questions they may have regarding banking law and other subjects with our examiners or direct these questions to the Regional Offices. Information is also provided directly to consumers in response to complaints and inquiries received by the Office of Bank Customer Affairs or the Regional Offices. In addition, FDIC continues to provide insured nonmember banks within its enforcement jurisdiction with all amendments and official interpretations of Regulation Z.

In view of the numerous recent amendments to the Truth in Lending Act and Regulation Z, we have no suggestions or recommendations for changes in either the Act or Regulation at this time.

Sincerely,

Frank Wille

Frank Wille
Chairman

FEDERAL DEPOSIT INSURANCE CORPORATION		EXAM. (Close of business)	NUMBER
TRUTH IN LENDING – FAIR CREDIT BILLING		NO. OF OFFICES	TOTAL ASSETS
NAME OF BANK		EXAMINER-IN-CHARGE	
CITY	COUNTY	STATE	

NOTE: Answers to the following questions are based upon the results of a selected sampling, upon statements made by bank's management regarding procedures and policies, and upon observations by the examiner. In the case of negative answers, details are provided and management's promised remedial action noted.

ITEM	YES	NO
1. Is the bank correctly determining finance charges and properly handling excludable charges? (Section 226.4)		
2. Is the bank properly computing annual percentage rates? (Section 226.5)		
3. If the bank extends open-end credit or is a card issuer:		
(a) Does the bank provide correct disclosures before the first transaction is made on the new account? (Section 226.7(a))		
(b) Does the bank provide correct disclosures on periodic billing statements? (Section 226.7(b)(1))		
(c) If a finance charge may be imposed after a time period for payment is provided, does the bank mail or deliver billing statements within the time limits specified in Section 226.7(b)(2)?		
(d) Does the bank furnish either the semi-annual statement regarding customer rights or the shorter form of statement with each periodic billing? (Section 226.7(d))		
(e) Does the bank credit payments and if necessary adjust charges in accordance with Section 226.7(g)?		
(f) Does the bank credit or refund excess payments in accordance with Section 226.7(h)?		
(g) Does the bank comply with the issuance provisions for credit cards? (Section 226.13(a))		
(h) Does the bank comply with Section 226.13(i)(4) which prohibits the reporting of disputed amounts as delinquent?		
(i) Does the bank comply with the prohibition against offsets related to credit cards? (Section 226.13(j))		
(j) Does the bank promptly credit a customer's account for credit refunds? (Section 226.13(k)(2))		
(k) Does the bank comply with Section 226.13(l) which prohibits certain acts by card issuers?		
(l) Does the bank correctly follow the billing error resolution procedure? (Section 226.14)		
4. Is the bank providing correct disclosures on credit other than open end? (Sections 226.6 and 226.8)		
5. With respect to any consumer paper purchased by the bank or held by it as collateral, are the disclosures made therein correct? (Sections 226.6 and 226.8)		
6. Is the bank properly observing the right of rescission in applicable credit transactions? (Section 226.9)		
7. Based on applicable information, is the bank making correct disclosures in its advertisements? (Section 226.10)		
8. Has the bank adopted procedures which assure that its employees are making proper oral disclosures of annual rates? (Interpretation 226.101)		

COMMENTS:

FEDERAL DEPOSIT INSURANCE CORPORATION		EXAM. (Close of business)	NUMBER
REGULATION Z – TRUTH IN LENDING		NO. OF OFFICES	TOTAL ASSETS
NAME OF BANK		EXAMINER IN CHARGE	
CITY	COUNTY	STATE	

NOTE: Answers to the following questions are based upon the results of a selected sampling, upon statements made by bank's management regarding procedures and policies, and upon observations by the examiner. In the case of negative answers, details are provided and management's promised remedial action noted.

ITEM	YES	NO
1. Is the bank correctly determining finance charges and properly handling excludable charges?		
2. Is the bank properly computing annual percentage rates?		
3. If the bank extends open end credit, are correct disclosures being provided?		
(a) before the first transaction is made on a new account?		
(b) when required periodic statements are rendered?		
4. Is the bank providing correct disclosures on credit other than open end?		
5. With respect to any consumer paper purchased by the bank or held by it as collateral, are the disclosures made therein correct?		
6. Is the bank properly observing rescission rights on both direct and indirect paper?		
7. Based on available information, is the bank making correct disclosures in its advertisements?		
8. Is the bank complying with the issuance and disclosure provisions for credit cards?		
9. Has the bank adopted procedures which assure that its employees are making proper oral disclosures of annual rates?		

COMMENTS

(Examiner)

6.25.69

REGULATION Z CHECKLIST

General Questions

1. Are bank management and loan personnel sufficiently knowledgeable of the Regulation?
2. (a) Have procedures been adopted in the auditing department to disclose errors and violations through internal checks?

   (b) Are these procedures periodically reviewed and, if necessary, revised to meet changing business practices?
3. (a) Has the bank's attorney reviewed all forms and procedures in use by the bank to comply with the Regulation?

   (b) Do such forms in use appear to provide for adequate disclosure?
4. Has Board of Governors exempted State from any class of credit transactions with respect to disclosure and rescission provisions? § 226.12
5. If so, is bank complying with provisions of applicable State law in this respect?

§ 226.4 Determination of Finance Charge

1. If credit life or liability insurance is excluded from the finance charge, are the requirements of § 226.4(a)(5) and (6) met?
2. Does finance charge include charge imposed on another creditor for purchasing obligation if customer is required to pay any part of such charge in any manner? § 226.4(a)(8)
3. Are the non-real property transaction charges which qualify for exclusion from the finance charge itemized and separately disclosed so as to merit exclusion under § 226.4(b)?
4. Are the real property transaction charges which qualify for exclusion reasonable in amount, etc., so as to merit exclusion under § 226.4(e)?
5. Is the amount of the finance charge (and APR) computed on basis of 1/2 year maturity for demand obligations? § 226.4(g)

§ 226.5 Determination of APR

1. (a) Are APR computations correct?

   (b) Are APR computations made to the nearest one quarter of 1%?

   (c) Is rounding off done only when computation is complete? § 226.5(b)

2. Is either the actuarial method or U.S. rule being used? § 226.5(b)

3. Is the APR for open end accounts computed as prescribed in § 226.5(a)?

§ 226.6 General Disclosure Requirements

1. Are required disclosures made clearly, conspicuously, and in meaningful sequence? § 226.6(a)

2. (a) Are the terms "FINANCE CHARGE" and "ANNUAL PERCENTAGE RATE" in print more conspicuous than other required disclosures?

   (b) Is all required terminology being used? § 226.6(a)

3. Are percentages and numbers in figures and correct in size? § 226.6(a)

4. Are plans in effect to retain records, other than in advertising, for a minimum of 2 years after disclosure date? § 226.6(i)

5. If the bank has elected to express the APR in "dollars finance charge per year per $100 of unpaid balance," is it aware that the percentage form must be used beginning January 1, 1971? § 226.6(j)

6. (a) Is the bank aware that it may use modified forms only if it has made a bona fide effort prior to July 1, 1969, to get new ones which comply? § 226.6(k)

   (b) Is the bank aware that any forms so modified must be discontinued by December 31, 1969?

   (c) Is the bank aware that it may <u>not</u> use a modified form for the notice of rescission?

7. (a) Do disclosures inconsistent with Regulation Z but required by State law appear in the proper place?

   (b) If any "additional information or explanations" not required by State

law is being disclosed, is it stated, utilized and placed so as not to mislead the customer or contradict, obscure, or detract attention from required disclosures? § 226.6(c)

8. (a) If the bank purchases consumer paper from dealers, has it carefully reviewed all disclosures made by the dealer to determine the completeness and accuracy of such disclosures?

   (b) Is written acknowledgment of receipt of disclosure by customer included?

   (c) Is the bank a creditor and therefore responsible for disclosure under § 226.6(d)?

   (d) If so, is it identified as a creditor on the disclosure document?

9. (a) Has it been necessary for the bank to estimate any of its disclosure information?

   (b) If so, is the estimate reasonable? § 226.6(f)

§ 226.7 Open End Accounts - Specific Disclosures

1. Have the various provisions under §§ 226.7(a) been properly disclosed to the customer before the first transaction is made on a new open end account established on or after July 1, 1969?

2. (a) In the case of open end accounts with collectible balances in existence on July 1, 1969, were the disclosures required under § 226.7(a) mailed or delivered to the customer by July 31, 1969?

   (b) If the open end account had no balance on July 1, 1969, but is subsequently used, have the new account disclosures been mailed or delivered to the customer before or with the next billing?

   (c) Has the bank established satisfactory procedures to assure that the disclosures required under § 226.7(a) for accounts which were in existence on July 1, 1969, but which had no balance on that date will be mailed or delivered to the customer before or with the next billing? § 226.7(f)

3. Do periodic statements contain the provisions set forth under § 226.7(b) (refer to list of disclosures on page 7)

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4. (a) Does the face of the periodic statement contain the proper disclosures under § 226.7(c)?

   (b) Are other location requirements for periodic statements met?

   (c) If some disclosures are on the reverse side or on accompanying slips, does the face of the periodic statement contain the proper notice?

   (d) Are the disclosures on the periodic statement located so as not to confuse or mislead the customer or obscure or detract from the information required to be disclosed? § 226.7(c)

5. Is proper notice being given of any changes in the terms of open end accounts? § 226.7(e)

§ 226.8 Credit Other Than Open End - Specific Disclosures

1. (a) Are all disclosures being given to the customer in the manner set forth in § 226.8(a)?

   (b) Are they being given before the transaction is consummated?

   (c) Are all blank spaces in the disclosure statement filled in before it is given to the customer?

2. (a) Are disclosures required for credit sales in compliance with the requirements of § 226.8(b)+(c)? (refer to list on page 8)

   (b) Are disclosures required for loans and other non-sale credit in compliance with the requirements of § 226.8(b)+(d)? (refer to list on page 8)

3. Are all charges included in the amount of credit but which are not a part of the finance charge either added to the "unpaid balance" in accordance with § 226.8(c)(5) or included in the "amount financed" in accordance with § 226.8(d)(1)?

4. Are disclosures made in connection with loans requested by mail or telephone made within the time specified in § 226.8(g)?

5. (a) In dealer consumer sales paper involving an "add-on" agreement whereby amounts financed and finance charges on additional credit sales are added

to an existing outstanding balance, does the agreement meet all of the requirements set forth in § 226.8(h)?

(b) If so, are disclosures in connection with subsequent sales being made within the time specified in § 226.8(h)?

(c) If not, are disclosures in connection with subsequent sales being made under the provisions of § 226.8(j)?

6. (a) If the bank is electing to consider transactions involving advances made under loan commitments to be single transactions under the provisions of § 226.8(i), are estimates of disbursement and payment dates being made?

(b) Accurately?

(c) Is the finance charge itemized in accordance with § 226.8(c)(8)(i) and § 226.8(d)(3)?

7. Do loans made for the purpose of consolidating, refinancing, or otherwise increasing the total indebtedness meet the requirements set forth in § 226.8(j)?

8. If a bank accepts a subsequent customer as an obligor under an existing obligation, are disclosures being made to the subsequent customer under § 226.8(k)?

9. Do the disclosures made in connection with extensions or deferrals on loans (except loans in which the amount of the finance charge is determined by the application of a percentage rate to the unpaid balance), where a charge is imposed for the deferral or extension, conform to the requirements set forth in § 226.8(l)?

10. Are extensions of credit involving a series of single payment obligations considered as a single transaction subject to the requirements of the Regulation? § 226.8(m)

11. Does the periodic billing statement, if elected for a non-open end transaction, disclose both the APR and the date by which payment must be made to avoid late charges? § 226.8(n)

§ 226.9 Right to Rescind Certain Transactions

1. (a) Has each customer who is qualified to rescind under § 226.9 been given the notice of opportunity to rescind required under § 226.9(b)?

   (b) Has each such customer been given two copies of such notice?

   (c) Does the form of the notice meet the requirements of § 226.9(b)?

2. (a) During the 3-day rescission period, has the bank withheld disbursement of any funds except in escrow?

   (b) Before disbursing any funds, has the bank reasonably satisfied itself that the customer has not rescinded? § 226.9(c)

3. (a) Is the bank "consummating" each transaction and delivering all disclosures required under Regulation Z before beginning to count the 3-day rescission period?

   (b) Is the bank preserving evidence of delivery of rescission notice required under § 226.9(b)?

4. (a) When waivers of the right of rescission have been taken, have the requirements for such waivers as set out in § 226.9(e) been met?

   (b) Where a waiver is taken, have only non-printed forms been used to waive or modify the right of rescission?

   (c) Do the situations described in such waivers meet the test of "bona fide immediate personal financial emergency?"

§ 226.10 Advertising Credit Terms

1. Does the bank maintain an advertising file?

2. If the bank states in an advertisement that a specific amount of credit is available or that a specific amount of downpayment will be accepted, does it usually and customarily arrange such terms?

3. Do multi-page advertisements qualify as single advertisements for purposes of disclosure? § 226.10(b)

4. Does current advertising appear to conform to the requirements for open end and non-open end advertisements? § 226.10(c)&(d)

REGULATION Z
REQUIRED DISCLOSURES
OPEN END CREDIT PERIODIC STATEMENT

Description (Required Terminology in Quotes)
"Previous Balance"
Purchases
"Payments"
"Credits"
"FINANCE CHARGE" (itemized) (also showing minimum charge)
"Periodic Rate" or "Periodic Rates" (showing balance to which applicable)
"ANNUAL PERCENTAGE RATE"
Balance on which Finance Charge Computed
Explanation how above balance determined
Billing Cycle Closing Date
"New Balance"
Date or Period of Payment to Avoid Additional Charge
Date & identification of purchases & credits other than payments

REGULATION Z
. . REQUIRED DISCLOSURES
OTHER THAN OPEN END CREDIT

Description (Required Terminology in Quotes)	Other Credit Sales § 226.8	Non-sale Credit § 226.8
"Cash Price"	x	
"Cash Down Payment"	x	
"Trade-In"	x	
"Total Down Payment"	x	
"Unpaid Balance of Cash Price"	x	
Proceeds		x
Other Charges (itemized)	x	x
"Unpaid Balance"	x	
"Prepaid Finance Charge"	x	x
"Required Deposit Balance"	x	x
"Total Prepaid Finance Charge and Required Deposit Balance"	x	x
"Amount Financed"	x	x
"FINANCE CHARGE" (itemized)	*	*
"Total of Payments"	*	*
"Deferred Payment Price"	x	
"ANNUAL PERCENTAGE RATE"	x	x
Date Finance Charge begins to Accrue (if other than note date)	x	x
Number, Amount & Due Date of Payments	x	x
"Balloon Payment" & condition under which can be refinanced	x	x
Default, delinquency or similar charges	x	x
Identification of security interest and property pledged	x	x
Method of computing rebate, if any	x	x
Identification of creditors	x	x
Charges for insurance and non-requirement statement if excluded from finance charge	x	x
Customer statement of desire to purchase insurance	x	x

* - Not applicable in case of credit sale of real estate or first purchase money mortgage on dwelling.

June 20, 1969

MEMORANDUM TO: Mr. Elward H. DeHority
Chief, Division of Examination

SUBJECT: Handling of Regulation Z Comments
in Reports of Examination

This is responsive to your memorandum of June 16, 1969 relative to the above matter.

It is the opinion of the Legal Division that any reference to Regulation Z in the Reports of Examination will result in the reports being germane to civil litigation involving a bank and its customer based on a violation of Regulation Z. As such, the reports will be sought by counsel either for informational purposes or for evidence, and the courts will have the duty of balancing the interests between the rights of litigants to obtain needed information and the right of this Corporation to maintain the confidentiality of the reports.

The current practice in such instances is to ask the judge to review the desired report to determine what portions are relevant and to order only those portions found to be relevant and necessary to be produced after providing appropriate safeguards, such as the deletion of names of those not involved in the litigation.

The fact remains that in such instances the extent which a report's contents are revealed depends on the attitude of the judge and so varies from case to case.

Because of this uncertainty, only the complete elimination of any reference to Regulation Z in the reports will assure their confidentiality. Requests for their production may then be met with a response that they are completely irrelevant to the litigation.

A separate report concerning the bank's compliance with Regulation Z, to the extent that it is relevant to a particular controversy, will be subject to subpoena, but in that case it will be only the Regulation Z report which will be in jeopardy, not the separate Report of Examination.

Robert E. Mitchell
Assistant General Counsel

June 16, 1969

MEMORANDUM TO: Mr. Leslie H. Fisher
General Counsel

SUBJECT: Handling of Regulation Z Comments in Reports of Examination

Informal discussion with Messrs. Hood and Moroney have raised the question of whether the reporting of noncriminal violations of Regulation Z in Corporation Reports of Examination could jeopardize their confidentiality. Such violations can give rise to civil action in which case the creditor bringing suit apparently could take legal steps to introduce the Report of Examination as evidence. Moreover, it is conceivable that even general criticisms in the report about, for example, inadequate Regulation Z forms or inadequate Regulation Z procedures could be construed by a creditor bringing suit as desirable evidence to support his case.

It is our intention to delete all comment about criminal violations from Reports of Examination and handle them in a separate letter-report as we do other criminal violations. We would like your advice regarding the need to handle comments about noncriminal violations of Regulation Z and deficient Regulation Z procedures in a separate letter-report outside the Report of Examination. Such a letter-report could be prepared by the field Examiner and transmitted by the District Office to the Board of Directors of the bank independent of the Report of Examination.

If your advice is to follow the procedure discussed in the preceding paragraph, we also would like to know if certain nonspecific comments could be left in the report. For example, on the Violations page, the Examiner might state, "Seven violations of Regulation Z discussed with management during the examination and covered in detail in a separate letter-report." Moreover, on the Conclusions page the Examiner might state, "Overall Regulation Z forms and procedures were discussed with management during the examination and comments are contained in a separate letter-report." Also, Contingent Liabilities or Liabilities not Shown on the Books could be entered in the report by amount only, with reference made to a separate letter-report.

Inasmuch as the regulation becomes effective July 1 of this year, it is imperative that we give appropriate instructions to our Supervising Examiners within a few days. The matter was just brought to our attention and we would appreciate a response to this memorandum at the earliest possible date.

Edward H. DeHority
Chief, Division of Examination

COMPTROLLER OF THE CURRENCY

TRUTH IN LENDING COMPLIANCE REPORT

TO THE

COMMERCE, CONSUMER AND MONETARY AFFAIRS SUBCOMMITTEE

SEPTEMBER 16, 1976

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

September 13, 1976

Dear Mr. Chairman:

In response to your letter of August 13, 1976, we are pleased to provide you with the following information which you have requested.

(1) The number and average size of the national banks examined by this Office between March 31, 1975 and July 31, 1976, in the following states (asset size as of December 31, 1975):

	No. of Banks	Average Size ($ in millions)
Maryland	42	118
Delaware	5	12
New Jersey	113	150
Pennsylvania	244	152
New York	150	445
Connecticut	24	171
Rhode Island	5	544
Massachusetts	77	160
New Hampshire	44	26
Vermont	16	26
Maine	20	54

(2) The number of irregularities and/or defects and loan transactions, cited in items one through four of the Comptroller of the Currency's Regulation Z compliance reports (Form CC-1425-OX, Page 6-1) completed in the course of examining the institutions enumerated in (1) above. By agreement with your staff where there are more than 30 national banks in any state, a random sampling of 30 banks is used for each state. Item 1 is concerned with a bank's disclosure forms and procedures, item 2 is concerned with a bank's procedure to detect defects in disclosures on purchased dealer paper, item 3 is concerned with the accuracy of interest computations and rebates, and item 4 is concerned with the compliance of a bank's advertising. The number of banks found to be in violation of these items is indicated for each state, but this does not indicate the number of loans which were in violation of each bank.

	1	2	3	4
Maryland (One Bank had reported violations)	1	0	0	0
Delaware (One Bank had reported violations)	1	0	0	0
New Jersey (Four Banks had reported violations)	1	1	2	0

	1	2	3	4
Pennsylvania (Seven Banks had reported violations)	5	0	1	1
New York (Five Banks had reported violations)	3	2	0	0
Connecticut (Seven Banks had reported violations)	6	3	3	2
Rhode Island (Five Banks had reported violations)	5	2	2	0
Massachusetts (17 Banks had reported violations)	17	6	7	5
New Hampshire (20 Banks had reported violations)	16	7	1	1
Vermont (Three Banks had reported violations)	3	0	0	0
Maine (Six Banks had reported violstions)	6	1	1	2

(3) When violations have been reported they are discussed with the management at the conclusion of the examination. At the time the report is sent to the bank by the Regional Office, the Regional Administrator directs a letter to the bank's board of directors bringing the violations to its attention and asking to be informed when correction has been achieved.

When the violation is purely technical and has not resulted in monetary harm to the customer, the bank is directed to correct its procedures and forms. If the customer has suffered a significant loss, such as with a miscalculated annual percentage rate, the bank is directed to reimburse the customer for the excessive amount charged.

We trust this has been responsive to your request.

Sincerely,

Robert Bloom
Acting Comptroller of the Currency

The Honorable Benjamin S. Rosenthal
Chairman, Commerce, Consumer, &
Monetary Affairs Subcommittee of the
Committee on Government Operations
Rayburn House Office Building
Washington, D. C. 20515

Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

July 9, 1976

Banking Circular No. 73

To: Presidents of All National Banks

Subject: Compliance with Consumer Laws -- Expanded Examination Procedures

Within the past few weeks the Comptroller's Office has begun to implement new examination procedures designed to better determine compliance by national banks with a number of statutes enacted to protect consumer interests. Key elements of the new examination effort include:

-- Completely revised and greatly expanded examination questionnaires which will enable the examiner to probe the policies, procedures and practices of national banks for the purpose of assuring full compliance with the requirements of consumer protection statutes and regulations.

-- Expanded training programs which will require a mastery by assistant examiners of the new consumer-oriented examination procedures as a prerequisite to obtaining a commission.

-- Coordinated follow-up procedures which will require our Regional Offices to secure early bank correction of deficient practices.

-- Involvement by the Comptroller's Enforcement and Compliance Division in assisting the Regional Offices in obtaining correction of deficiencies by recalcitrant institutions -- through formal procedures under the Financial Institutions Supervisory Act when necessary.

The new examination procedures initially will concentrate upon those problem areas in which noncompliance may have a significantly adverse impact upon consumers. When it is discovered that customers have been harmed by noncompliance, we are confident that national

banks will act in a manner consistent with the public's faith and trust in them. It is expected that such actions will include taking whatever steps are deemed appropriate to remedy conditions resulting from violations of law, including restitution.

The experience of our examination force suggests that many deficient practices could be avoided simply by banks scrutinizing their own compliance more carefully. Indeed, inadvertent violations are frequently caused by a failure of bank officers and counsel to match an understanding of the law with an awareness of the details of the bank's procedures and practices. Because even highly technical violations of a number of these statutes can result in substantial punitive damages and protracted litigation, bank counsel, in particular, must be alert to deviations from statutory and regulatory requirements. A list of the statutes which should be reviewed by bank counsel is attached to this Circular.

In sum, the Comptroller's Office intends to assure whatever degree of examiner scrutiny may be necessary to obtain conscientious bank compliance with the requirements of these statutes. I encourage each of you to anticipate this heightened examiner inquiry by conducting your own thorough in-house reviews of practices and procedures in this complex, rapidly changing area.

Very truly yours,

James E. Smith
Comptroller of the Currency

Attachment

TITLE	CITATION
CONSUMER CREDIT PROTECTION ACT:	
Truth in Lending Act	15 U.S.C. 1601 Regulation Z (12 CFR 226)
Fair Credit Billing Act	15 U.S.C. 1666 Regulation Z (12 CFR 226)
*Consumer Leasing Act of 1976	15 U.S.C. 1667 Regulation Z (12 CFR 226)
Fair Credit Reporting Act	15 U.S.C. 1681
Equal Credit Opportunity Act	15 U.S.C. 1691 Regulation B (12 CFR 202)
*Equal Credit Opportunity Act Amendments of 1976	15 U.S.C. 1691 Regulation B (12 CFR 202)
Home Mortgage Disclosure Act	12 U.S.C. 2801 Regulation C (12 CFR 203)
Real Estate Settlement Procedures Act	12 U.S.C. 2601 Regulation X (24 CFR 3500)
Fair Housing Act	42 U.S.C. 3605
Advertising - Deposits	12 U.S.C. 371 b Regulation Q (12 CFR 217.6)
Interest - Usury	12 U.S.C. 85 & 86
Applicable State Laws	

*Effective March 23, 1977

Comptroller of the Currency
Administrator of National Banks

Washington, D. C. 20219

LETTER OF TRANSMITTAL

Sirs:

Pursuant to the requirements of section 18(f)(5) of the Federal Trade Commission Act (15 U.S.C. 41 et seq., as amended by Pub. L. 93-637), I am pleased to submit the First Annual Report for the Consumer Affairs Division of the Comptroller of the Currency.

This report covers the activities of the Consumer Affairs Division during the calendar year 1975.

Respectfully,

James E. Smith
Comptroller of the Currency

The President of the Senate

The Speaker of the House of Representatives

INTRODUCTION

Title II of Pub. L. 93-637, the Federal Trade Commission Improvements Act, section 202(f)(5), states that each agency exercising authority under this subsection shall transmit to Congress not later than March 15 of each year a detailed report on its activities under this legislation during the preceding calendar year.

The Act, dated January 4, 1975, directs the Office of the Comptroller of the Currency to establish a separate consumer affairs division within the agency. The division of consumer affairs shall receive and take appropriate action upon complaints with respect to unfair or deceptive acts or practices in or affecting commerce, including acts or practices which are unfair or deceptive to consumers. Further, the Act directs the Comptroller of the Currency to enforce compliance with the regulations promulgated by the Board of Governors of the Federal Reserve System (Board) with respect to Federally-insured banks subject to its jurisdiction.

The Consumer Affairs Division of the Comptroller of the Currency was created in March, 1974, before it was legislatively mandated by the Act, and became operational in September, 1974. From the outset, the Division has had responsibility for the enforcement of all consumer protection laws which are applicable to National Banks. The Division has equal status with other, long established, divisions of the Comptroller's Office and participates similarly in overall policy planning.

In 1975, the Federal Trade Commission issued two proposed trade regulation rules that were subsequently issued by the Board regarding unfair or deceptive acts or practices in or affecting commerce. The proposed rules were to limit creditors' remedies ("Credit Practices") and to preserve consumers' claims and defenses ("Holder in Due Course"). Neither of these proposals was finalized in 1975 by either the Federal Trade Commission or the Board.

During the entire year, the Consumer Affairs Division of the Comptroller of the Currency received and took appropriate action on complaints with respect to alleged unfair or deceptive acts or practices by National Banks. These complaints ranged from advertising to Regulation Z.

1975 ANNUAL REPORT TO CONGRESS

The Consumer Affairs Division is charged with the responsibility of protecting the rights of the public dealing with banks under our jurisdiction. Throughout 1975, the Division was actively involved in programs aimed at making the Office more accessible and responsive to the public. Implementation of these programs through improved communication techniques affords the public the opportunity to voice complaints, seek information and present their views. Some of the activities during 1975 are listed hereafter.

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A. Compliance

The Office of the Comptroller of the Currency has the responsibility of enforcing compliance with State and Federal consumer laws and regulations as they apply to National Banks. Administration of this obligation is accomplished through the bank examination process and through the review and resolution of complaints alleging violations of law, including unfair or deceptive acts or practices. The Consumer Affairs Division has taken an increasingly active part in the administration of this responsibility with the development of evaluative criteria and measurement techniques designed for enforcing compliance. As part of a management study conducted recently, the examination report is being revised and the Division is preparing comprehensive checklists and work papers to examine for bank compliance with consumer protection laws.

Whenever a violation is discovered during bank examinations, the matter is immediately called to the attention of bank management and a report is forwarded to the Regional Office and to the Washington Office. Appropriate procedures are subsequently taken to correct the violation. Various checklists are used by the examiners to serve as an aid during the examination process. Numerous tests are performed on selected loans, policies, procedures and advertising to determine whether banks are in compliance. In cases of continual and extreme violations, we have used our cease and desist authority and have made referrals to the United States Department of Justice. During 1975, in connection with violations of consumer laws and regulations, there were two formal written agreements issued, one cease and desist order, and numerous referrals to the United States Department of Justice.

The complaints against National Banks cover a wide variety of consumer banking activities. Among the complaints received, both in Washington and the fourteen Regional Offices, are ones dealing with check cashing privileges, interest charges, deposits not credited, rebates, and individual credit decisions. A computer program has been established to catalog these complaints. When a complaint is received, it is immediately referred to a staff attorney to investigate the fact situation and prepare as complete a response as possible under each circumstance to the complainant. Inquiry is made of the bank concerned by letter or, if necessary, the visit of an examiner. Depending on what is discovered, either the bank is asked to remedy its error or the complainant is informed that no basis has been found for the complaint. If there appears to be a factual dispute between the parties, the complainant is advised to seek legal counsel to pursue the matter further since this Office does not have authority to adjudicate fact situations.

B. Training, Information and Education

The Division participated in seven schools to provide additional training to over 200 experienced national bank examiners from throughout the country in the interpretation, administration and enforcement of consumer legislation and regulations.

Information is constantly collected and researched which is designed to check bank compliance with laws and to detect potential weaknesses and abuses on the part of banks in the area of consumer credit. Comprehensive studies were completed during the year in the areas of unfair or deceptive

acts or practices, advertising, consumer leasing, credit insurance, service charges, EFTS guidelines, enacted legislation and promulgated regulations. The Consumer Affairs Division provided an innovative service to banks regarding laws that became effective during 1975. These laws were the Real Estate Settlement Procedures Act, Equal Credit Opportunity Act and Fair Credit Billing Act. The Division wrote to the Presidents of all National Banks (with copies to examiners) sending them copies of the Acts, copies of the implementing regulations, and an analysis of both, including a checklist and transition calendar. Designated personnel were made available to bankers and their attorneys to discuss any questions they may have had. Also, there were requests for comments from Congress, the Board of Governors of the Federal Reserve System, and the Department of Housing and Urban Development regarding proposed legislation and regulations to which we responded extensively.

There were numerous requests responded to from students and educational institutions requesting information concerning consumer banking and consumer protection legislation and regulations. Throughout the year, the Division has offered advice and counselling to the public in response to the numerous telephone calls seeking this assistance. The entire staff has been actively involved in lecturing, serving on panels and attending meetings, seminars and schools.

C. Liaison

The Division has maintained continuing liaison with Federal regulatory agencies, State banking departments, consumer interest groups and industry associations for mutual assistance and an interchange of ideas in the field of banking consumer protection. There has been an increased activity in this area, especially with consumer interest groups, on matters of interest to bank customers. Consumer views have been encouraged and duly considered.

D. Legislation

The two most significant enactments during 1975 were the Home Mortgage Disclosure Act of 1975 and the Real Estate Settlement Procedures Act (RESPA) Amendments of 1975. The Home Mortgage Disclosure Act was enacted to disclose the failure of some financial institutions to provide adequate home financing in certain geographical areas and to provide disclosures to the public regarding residential lending patterns of certain financial institutions. The Office will have the responsibility for enforcing the Act and the implementing regulations to be issued by the Board of Governors of the Federal Reserve System (Board). The RESPA Amendments were enacted because Congress felt that RESPA was causing undesirable delays in settlements and had become unduly burdensome for lenders. Again, the Office will have the responsibility for enforcing the amended Act and the revised implementing regulations to be issued by the Board and the Department of Housing and Urban Development (HUD).

There were several regulations issued during the year that implemented legislation enacted during the 93rd Congress. Included among these were Regulation B (12 CFR 202) issued gy the Board to implement the Equal Credit

Opportunity Act, amendments to Regulation Z (12 CFR 226) issued by the Board to implement the Fair Credit Billing Act, and Regulation X (24 CFR 82) issued by HUD to implement the Real Estate Settlement Procedures Act. The Consumer Affairs Division actively participated in commenting on these Regulations and subsequently prepared policy guidelines for an enforcement program to monitor banks under our jurisdiction for compliance with the Acts and implementing Regulations.

In addition to the above, the Division has the continuing responsibility of enforcing compliance with previously enacted consumer protection laws as they apply to national banks. Among the other laws which are generally included in this area are the Consumer Credit Protection Act (which includes the Truth in Lending Act and the Fair Credit Reporting Act), Title VIII of the Civil Rights Act of 1968, the Equal Employment Opportunity Act, the Flood Disaster Protection Act of 1973, various housing acts, Regulations Q and Z of the Federal Reserve Board, usury laws, and state consumer protection laws.

The Consumer Affairs Division maintains a legislative log for each session of Congress. The purpose of this log is to keep the Division and other departments of the Comptroller's Office updated on all pending consumer legislation and also all proposed and promulgated rules of the various regulatory agencies.

E. Computer Systems

During 1975, the Consumer Affairs Division developed a Consumer Complaint Information System (CCIS). The establishment of the CCIS enables the Division to catalog complaints and determine the volume and type of complaints received and handled on a nationwide basis, and to determine which banks have an inordinate number of complaints filed against them. There were 1,037 complaints received in the Washington Office during 1975 and this represents a one-third increase over the previous year. The information derived from the system will be used to supplement the examining process, to determine legitimate customer concerns, and to respond to statistical inquiries. Additionally, the CCIS gives the Division the ability to constantly monitor our operation and utilize consumer complaints for policy program development.

Conclusion

At year end, the Consumer Affairs Division reviewed and evaluated its performance during 1975 to assure that consumer interests were recognized and protected. It is the intention of the Office of the Comptroller of the Currency to intensify the examination procedures to assure that National Banks are complying with consumer credit protection laws.

November 21, 1975

Mr. Frederick Solomon
Assistant to the Board and Director
Office of Saver & Consumer Affairs
Board of Governors of the
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Solomon:

This is in response to your letter dated October 23, 1975, requesting certain information with respect to our enforcement of the Truth in Lending Act during the past year. Our replies below are set forth in the same order as the questions posed in your letter.

(1) This Office enforces the Truth in Lending Act and Regulation Z in connection with the consumer lending practices of national banks. During our normal examination process, we have examined for violations and enforced compliance with the Regulation by national banks. All complaints received from whatever source, alleging violations of the law, have been promptly brought to the attention of the bank involved and appropriate remedies taken where necessary.

The administration of our enforcement function is undertaken by the Regional Administrators, examiners, and the Law Department. Whenever a violation is discovered during a bank examination, the matter is immediately called to the attention of bank management and a report is forwarded to the Regional Office and to the Washington Office. Appropriate procedures are subsequently taken to correct the violations. In cases of continual and extreme violations, we have used our cease and desist authority and in one instance, made a referral to the United States Department of Justice.

We have provided and are continuing to provide for our staff of examiners across the country training in the interpretation, administration, and enforcement of the Act and Regulation Z as they apply to customers dealing with the banks under our jurisdiction. In one of our Regional Offices we are experimenting with a new examination technique. This involves the use of personnel who are specially trained and particularly qualified to examine for bank compliance with consumer protection laws and regulations, including Regulation Z.

As an indication of the problems encountered during the year, approximately ten percent of the correspondence received in our Washington Office from bank customers alleged violations of Regulation Z. At this time, we have not yet determined how many of these allegations are actual violations. As in recent years, one of the significant problems encountered is the use by creditors (in oral communications) of rates other than the annual percentage rate. Another problem encountered relates to unauthorized issuance of credit cards (usually in response to telephone solicitations).

From the examination process, it is apparent that the computation of the annual percentage rate and the method of disclosure are the most prevalent problems.

(2) There is an indication that most national banks are satisfied that they are complying with Regulation Z because the number of loan forms submitted to this Office for review has diminished substantially. However, a special monitoring program which we are testing in one national bank region indicated that there may be a substantially higher degree of noncompliance with the provisions of the Regulation than we had anticipated. We will be better prepared to make a qualitative analysis of this matter when the special program has been completed and evaluated.

(3) This Office established a Consumer Affairs Division in September, 1974. Among other functions, this division will monitor the Act and Regulation Z. As well as training examiners and developing monitoring systems, the Consumer Affairs Division has ddertaken numerous efforts designed to provide information and education concerning the Act and Regulation Z. Most recently, the division wrote to the Presidents of all national banks. This letter contained a copy of the Fair Credit Billing Act Regulations (12 CFR Part 226) issued by the Board of Governors of the Federal Reserve System and an analysis of the Regulations including a checklist and transition calendar. Also, personnel were made available to bankers and their attorneys to discuss any questions they may have concerning the Act or Regulation Z as amended. The same procedure was followed for the Real Estate Settlement Procedures Act of 1974, P.L. 93-533, and the Equal Credit Opportunity Act, Title V of P.L. 93-495.

Meet the Comptroller Seminars for Chief Executive Officers of National Banks, and various other meetings with bankers provide a forum for education and information, including periodic updates, regarding the Act and Regulation Z. During the year national bank examiners spoke to student classes concerning consumer banking and we have been responsive to numerous requests from educational institutions to provide information concerning consumer protection legislation and regulations.

Personnel in our Washington Office and our fourteen Regional Offices continue to make themselves available to bankers and their lawyers to discuss any questions they may have concerning Regulation Z. This effort has

served as a useful supplement to the examination procedures conducted by our examiners in the field. In addition, this Office periodically sends to national banks Banking Bulletins and Banking Circulars containing instructions and information concerning the Regulation, as well as other matters.

We are currently doing studies in the areas of consumer leasing, credit insurance, and fuller disclosure of bank service charges. We endeavor to research and to collect information which is designed to check bank compliance with laws and to detect potential weaknesses and abuses on the part of banks in the area of consumer credit.

(4) We do not have any suggestions or recommendations to make for changes in Regulation Z or the Truth in Lending Act in addition to the recent amendments to the Act and proposed legislation now before Congress.

We trust the above will be of assistance in preparing your annual report to Congress on Truth in Lending, but if you need additional information, please let us know.

Very truly yours,

James E. Smith
Comptroller of the Currency

JC:TWT:lmk 11-19-75

August 10, 1976

Hon. Robert E. Barnett
Chairman
Federal Deposit Insurance Corp.
Washington, D. C. 20429

Dear Mr. Chairman:

The Subcommittee on Commerce, Consumer and Monetary Affairs, pursuant to its oversight responsibilities under the Rules of the House of Representatives, is investigating the effectiveness of Federal enforcement of the Truth in Lending Act. We appreciate the cooperation already extended by the FDIC. Discussions between our respective staffs have been cordial and productive.

To assist us further in our review of the enforcement procedures of the FDIC, we would appreciate your making available on or before September 10, 1976, the specific information described below:

Please set forth on a state-by-state basis for each of the following states: Maryland, Delaware, New Jersey, Pennsylvania, New York, Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine:

(1) the number, type (commercial bank, savings bank, or other), and average size (year-end 1975 total assets) of the institutions examined by FDIC from March 1, 1975, through July 31, 1976;

(2) the number of negative responses to each of items 1 through 9 of the FDIC Regulation Z compliance reports (FDIC 6500/55 (12-74)) completed in the course of examining the institutions enumerated in (1) above;

(3) the total number of loan transactions and dollar amounts involved if known, cited in the Comments section of the FDIC

Regulation Z complaince reports (FDIC 6500/55 (12-74)) completed in the course of examining the institutions enumerated in (1) above; and

(4) what specific action was taken by the FDIC to rectify the situation with respect to each of the transactions enumerated in (3) above.

If you have any questions regarding this request, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dt

August 12, 1976

Mr. John Quinn
Bureau of Consumer Protection
State Office Building
Augusta, Maine 04330

Dear Mr. Quinn:

The Subcommittee on Commerce, Consumer and Monetary Affairs is investigating the effectiveness of Federal enforcement of Truth-in-Lending laws and regulations. As subcommittee chairman, I intend to hold hearings during the second week of September in which the training-testing and thoroughness of Federal Truth-in-Lending examiners will be explored. I would like to ask your assistance in preparing for these hearings. The special situation of exempted States, such as Maine, provides a unique opportunity to evaluate the enforcement procedures and practices of the Federal banking agencies.

Commissioner Connell, of Connecticut, recently prepared for the subcommittee a report comparing the thoroughness of Connecticut and FDIC Truth-in-Lending compliance examinations. The report indicates in examining 92 banks the FDIC cited 32 loan transactions as having Truth-in-Lending violations. In contrast, for the same 92 banks, Connecticut examiners found 3,145 noncomplying transactions. The reason for this difference appears to be the specialization of Connecticut's Truth-in-Lending compliance examiners and their independence from the standard safety and soundness examination program.

If specialization and independence are the cause, it may be that Federal Truth-in-Lending enforcement should be modeled after the Connecticut example. However, before we can rely on the Connecticut results, we must know whether they are representative. We are attempting to do this in two ways.

First, we are asking other exempt States to compile data comparing the effectiveness of State and Federal examinations of Truth-in-Lending compliance.

Second, we are asking the Federal banking agencies to provide us with data on Truth-in-Lending noncompliance on a State-by-State basis for all States in the Northeast. We will then compare the results of exempt States with those of nonexempt States to determine if there is any significant difference in noncompliance frequency. If there are no significant differences, we must conclude that the Federal examinations in Connecticut (and perhaps Massachusetts and Maine) are characteristic of other States as well.

I am writing to request your office to compile data on the noncompliance findings of Maine Truth-in-Lending examiners along the lines of the Connecticut tabulations. Specifically, the subcommittee needs the following information:

(1) name of the institution or identifying number;

(2) date of the Federal examination;

(3) findings of Federal examiners (nature of violations, number of loans in violation and amount of rebates involved);

(4) date of the State examination;

(5) findings of State examiners (nature of the violation, number of loans in violation and amount of rebate involved); and

(6) average size (1975-year-end total assets) of the banks in the sample.

If possible please segregate the data according to whether the bank is a state member, state non-member, or national bank.

I am aware that gathering such information is not a minimal task. However, if you could make the information available by September 13, 1976, to allow the subcommittee staff time to compare it with data provided by the Federal agencies, I would appreciate it very much.

If you will be available, we would like to afford you the opportunity to testify and present your findings to the subcommittee in mid-September.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dt

August 12, 1976

Hon. Carol S. Greenwald
Commissioner of Banks
State Office Building
100 Cambridge Street
Boston, Massachusetts 02202

Dear Madam Commissioner:

The Subcommittee on Commerce, Consumer and Monetary Affairs is investigating the effectiveness of Federal enforcement of Truth-in-Lending laws and regulations. As subcommittee chairman, I intend to hold hearings during the second week of September in which the training, testing and thoroughness of Federal Truth-in-Lending examiners will be explored. I would like to ask your assistance in preparing for these hearings. The special situation of exempted States, such as Massachusetts, provides a unique opportunity to evaluate the enforcement procedures and practices of the Federal banking agencies.

Commissioner Connell, of Connecticut, recently prepared for the subcommittee a report comparing the thoroughness of Connecticut and FDIC Truth-in-Lending compliance examinations. The report indicates in examining 92 banks the FDIC cited 32 loan transactions as having Truth-in-Lending violations. In contrast, for the same 92 banks, Connecticut examiners found 3,145 noncomplying transactions. The reason for this difference appears to be the specialization of Connecticut's Truth-in-Lending compliance examiners and their independence from the standard safety and soundness examination program.

If specialization and independence are the cause, it may be that Federal Truth-in-Lending enforcement should be modeled after the Connecticut example. However, before we can rely on the Connecticut results, we must know whether they are representative. We are attempting to do this in two ways.

First, we are asking other exempt States to compile data comparing the effectiveness of State and Federal examinations of Truth-in-Lending compliance.

Second, we are asking the Federal banking agencies to provide us with data on Truth-in-Lending noncompliance on a State-by-State basis for all States in the Northeast. We will then compare the results of exempt States with those of nonexempt States to determine if there is any significant difference in noncompliance frequency. If there are no significant differences, we must conclude that the Federal examinations in Connecticut (and perhaps Massachusetts and Maine) are characteristic of other States as well.

I am writing to request your office to compile data on the noncompliance findings of Massachusetts Truth-in-Lending examiners along the lines of the Connecticut tabulations. Specifically, the subcommittee needs the following information:

(1) name of the institution and identifying number;

(2) date of the Federal examination;

(3) findings of Federal examiners (nature of violations, number of loans in violation and amount of rebates involved);

(4) date of the State examination; and

(5) findings of State examiners (nature of the violation, number of loans in violation and amount of rebate involved).

Discussions between my staff and yours indicate that (State non-Fed-member bank) data comparing FDIC and Massachusetts' findings are relatively accessible. If your office could also develop data on compliance by State member banks, savings banks and State-chartered savings and loans, this would also be helpful because such information can be compared with data provided by the Federal Reserve and the Federal Home Loan Bank Board. As for national banks, I am told that only an indirect comparison between State banks and national banks is feasible. Nevertheless, if you have any information concerning national bank compliance, we would appreciate receiving it.

I am aware that gathering such information is not a minimal task. However, if you could make the information available by September 13, 1976, to allow the subcommittee staff time to compare it with data provided by the Federal agencies, I would appreciate it very much.

If you will be available, we would like to afford you the opportunity to testify and present your findings to the subcommittee in mid-September.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dt

August 13, 1976

Hon. Robert Bloom
Acting Comptroller of the
Currency
490 L'Enfant Plaza
Washington, D. C. 20219

Dear Mr. Bloom:

The Subcommittee on Commerce, Consumer and Monetary Affairs, pursuant to its oversight responsibilities under the Rules of the House of Representatives, is investigating the effectiveness of the Federal enforcement of the Truth in Lending Act. We appreciate the cooperation already extended by the Office of the Comptroller of the Currency. Discussions between our respective staffs have been cordial and productive.

To assist us further in our review of the enforcement procedures of the Comptroller of the Currency, we would appreciate your making available on or before September 10, 1976, the specific information described below:

Please set forth on a state-by-state basis for each of the following states: Maryland, Delaware, New Jersey, Pennsylvania, New York, Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine:

(1) the number and average size (year-end 1975 total assets) of the commercial banks examined by the Comptroller of the Currency from March 1, 1975, through July 31, 1976;

(2) the number of (a) irregularities and/or defects and (b) loan transactions, cited in items 1 through 4 of the Comptroller of the Currency's Regulation 2 compliance reports (Form CC-1425-0X Page 6-1, June 1971) completed in the course of examining the institutions enumerated in (1) above; and

(3) what specific action was taken by the Comptroller of the Currency to rectify the situation with respect to each of the transactions enumerated in (2)(b) above.

If you have any questions regarding this request, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

August 13, 1976

Hon. Arthur F. Burns
Chairman, Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Chairman:

The Subcommittee on Commerce, Consumer and Monetary Affairs, pursuant to its oversight responsibilities under the Rules of the House of Representatives, is investigating the effectiveness of Federal enforcement of the Truth in Lending Act. We appreciate the cooperation already extended by the Federal Reserve. Discussions between our respective staffs have been cordial and productive.

To assist us further in our review of the enforcement procedures of the Federal Reserve, we would appreciate your making available on or before September 10, 1976, the specific information described below:

Please set forth on a state-by-state basis for each of the following states: Maryland, Delaware, New Jersey, Pennsylvania, New York, Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine:

(1) the number and average size (year-end 1975 total assets) of the commercial banks examined by the Federal Reserve from March 1, 1975, through July 31, 1976;

(2) the number of (a) irregularities and/or defects and (b) loan transactions, cited in items 1 through 5 of the Federal Reserve's Regulation Z compliance reports (FR 410 Page 5(1)-Rev. 6-69) completed in the course of examining the institutions enumerated in (1) above; and

(3) what specific action was taken by the Federal Reserve to rectify the situation with respect to each of the transactions enumerated in (2)(b) above.

If you have any questions regarding this request, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

August 20, 1976

Mr. Peter H. Schuck
Director
Consumers Union
1714 Massachusetts Avenue, N.W.
Washington, D. C. 20036

Dear Mr. Schuck:

I am writing to invite you to present the views of Consumers Union concerning Federal enforcement of the Truth in Lending Act at a hearing on Wednesday, September 15, 1976, at 10 A.M. in Room 2247 of the Rayburn House Office Building.

The subcommittee would especially appreciate hearing:

1. your thoughts on the merits of noncompliance disclosure, especially the benefits or costs of disclosing individual bank noncompliance in the media, and the relationship of disclosure to the self-enforcing nature of the Truth in Lending Act;

2. a description of what procedures the Federal banking agencies should use in evaluating and bringing about compliance with Truth in Lending regulations; and

3. a discussion of the basis and goals of the Consumers Union suit against the Comptroller of the Currency to obtain certain information concerning national bank compliance with Truth in Lending regulations.

The Rules of the House and this committee require that 50 copies of a witness' prepared statement be delivered to the subcommittee at least 24 hours prior to the presentation of testimony.

I personally look forward to hearing your testimony. If you have any questions concerning this hearing, please contact Robert H. Dugger of the subcommittee staff.

Warmest regards.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

August 20, 1976

Hon. Lawrence Connell
Commissioner of Banks
State Office Building, Room 239
165 Capitol Avenue
Hartford, Connecticut 06115

Dear Commissioner Connell:

I am writing to thank you for making available your report on truth-in-lending compliance in Connecticut and to invite you to testify concerning your findings at 10 A.M. on Wednesday, September 15, 1976, in Room 2247 of the Rayburn House Office Building.

The subcommittee would especially appreciate hearing:

1. a description of Connecticut truth-in-lending examination procedures:

2. a discussion of what steps your office takes to bring about bank compliance in truth-in-lending laws and what practices you are considering to bring about greater and more prompt compliance in the future: and particularly,

3. your thoughts on the merits of noncompliance disclosure, especially the benefits or costs of disclosing individual bank noncompliance in the media and the relationship of disclosure to the self-enforcing aspects of the Truth in Lending Act.

The Rules of the House of Representatives and this committee require that 50 copies of a witness' prepared statement be delivered to the subcommittee at least 24 hours prior to the presentation of testimony.

I personally look forward to hearing your testimony. If you have any questions concerning the hearing, please contact Robert H. Dugger of the subcommittee staff.

Warmest regards.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

August 20, 1976

Mr. John Quinn
Bureau of Consumer Protection
State Office Building
Augusta, Maine 04330

Dear Mr. Quinn:

I am writing to thank you for your office's cooperation with the subcommittee's investigation of Federal truth-in-lending enforcement and to request that you testify before the subcommittee on Wednesday, September 15, 1976, at 10 A.M. in Room 2247 of the Rayburn House Office Building.

The subcommittee would especially appreciate hearing:

1. a description of Maine's truth-in-lending examination procedures and what steps are taken to indemnify borrowers' violations when they are found;

2. a discussion of what steps your office takes to bring about bank compliance with truth-in-lending laws, and what practices you are considering to bring about greater and more prompt compliance in the future;

3. your thoughts on the merits of noncompliance disclosure, especially the costs and benefits of disclosing individual bank noncompliance in the media, and the relationship of disclosure to the self-enforcing aspects of the Truth in Lending Act; and

4. a review of the communications between your office and the Comptroller of the Currency regarding Federal enforcement of State banking laws by federally chartered institutions.

The Rules of the House of Representatives and this committee require that 50 copies of a witness' prepared statement be delivered to the subcommittee at least 24 hours prior to the presentation of testimony.

I personally look forward to your testimony. Please rest assured that expenses incurred by you to appear at this hearing will be promptly reimbursed by the subcommittee. If you have any questions concerning the hearing, please contact Robert H. Dugger of the subcommittee staff.

Warmest regards.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

August 20, 1976

Hon. Carol S. Greenwald
Commissioner of Banks
State Office Building
100 Cambridge Street
Boston, Massachusetts 02202

Dear Madam Commissioner:

I am writing to thank you for your office's cooperation with the subcommittee's investigation of Federal truth-in-lending enforcement and to invite you or your delegate to testify before the subcommittee on Wednesday, September 15, 1976, at 10 A.M. in Room 2247 of the Rayburn House Office Building.

The subcommittee would especially appreciate hearing:

1. a description of Massachusetts' truth-in-lending examination procedures and what steps are taken to indemnify borrowers' violations when they are found;

2. a discussion of what steps your office takes to bring about bank compliance with truth-in-lending laws, and what practices you are considering to bring about greater and more prompt compliance in the future; and particularly,

3. your thoughts on the merits of noncompliance disclosure, especially the costs and benefits of disclosing individual bank noncompliance in the media, and the relationship of disclosure to the self-enforcing aspects of the Truth in Lending Act; and

The Rules of the House of Representatives and this committee require that 50 copies of a witness' prepared statement be delivered to the subcommittee at least 24 hours prior to the presentation of testimony.

I personally look forward to hearing your testimony. If you have any questions concerning the hearing, please contact Robert H. Dugger of the subcommittee staff.

Warmest regards.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

August 25, 1976

Hon. Robert E. Barnett, Chairman
Federal Deposit Insurance Corp.
550 - 17th Street, N.W.
Washington, D. C. 20249

Dear Mr. Chairman:

As you know, the Commerce, Consumer and Monetary Affairs Subcommittee has been investigating Federal enforcement of the Truth in Lending Act pursuant to its oversight responsibilities under the Rules of the House of Representatives. I am writing to thank you for the FDIC's cooperation with the subcommittee's investigation and to request that you appear before the subcommittee on Thursday, September 16, 1976, at 10 a.m. in Room 2247 of the Rayburn House Office Building to give testimony concerning:

(1) The difference between FDIC Truth in Lending noncompliance findings and those of State compliance examiners in Connecticut, Maine and Massachusetts for the period March 1, 1975, to July 31, 1976. (A summary of the Connecticut report is enclosed. Summaries of the Maine and Massachusetts reports will be sent to you as soon as they are received by the subcommittee.)

(2) The position of the FDIC on the merits of noncompliance disclosure, especially:

(a) notification of borrowers that a loan transaction of theirs may contain a violation of some section of Truth in Lending regulations;

(b) public disclosure through the media of individual bank noncompliance with Truth in Lending regulations; and

(c) the relationship of disclosure to the self-enforcing nature of the Truth in Lending Act.

(3) The procedures presently followed or under consideration by the FDIC to evaluate the degree of compliance with Truth in Lending statutes, to rectify instances of noncompliance, and to indemnify borrowers injured by noncompliance.

Your testimony on these issues will be greatly appreciated. The Rule of the House of Representatives and this committee require that 50 copies of a witness' prepared statement be delivered to the subcommittee at least 24 hours prior to the presentation of testimony.

If you have any questions concerning this hearing, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

Enclosure: 1

SUMMARY OF CONNECTICUT AND FDIC
TRUTH IN LENDING COMPLIANCE FINDINGS CONCERNING 92 STATE
NONMEMBER BANKS, MARCH 1, 1976 THROUGH JULY 31, 1976

Connecticut Truth in Lending Compliance Examination Findings:	
Number of Banks Examined	92
Number of Violations Cited	3,145
Total Monetary Adjustments	$42,546.33
Largest Adjustment by One Bank	$27,980.00
Number of Banks with No Cited Transactions	NIL
Number of Banks with No Adjustments	NIL

FDIC Truth in Lending Compliance Examination Findings:	
Number of Banks Examined	92
Number of Violations Cited	37
Total Monetary Adjustments	$ 0.00

August 25, 1976

Mr. Robert Bloom
Acting Comptroller of the Currency
490 L'Enfant Plaza
Washington, D. C. 20036

Dear Mr. Bloom:

As you know, the Commerce, Consumer and Monetary Affairs Subcommittee has been investigating Federal enforcement of the Truth in Lending Act pursuant to its oversight responsibilities under the Rules of the House of Representatives. I am writing to thank you for your office's cooperation with the subcommittee's investigation and to request that you appear before the subcommittee on Thursday, September 16, 1976, at 10 a.m. in Room 2247 of the Rayburn House Office Building to give testimony concerning:

1. The findings of a special examination conducted by your office of New England national bank compliance with Federal consumer protection statutes. The subcommittee desires that you be prepared to discuss:

(a) the date and nature of the compliance examination;

(b) the names, location and size (year-end 1975 total assets) of the banks in the survey;

(c) the number and nature of the Truth in Lending violations found in each of the banks enumerated in (b) above; and

(d) what specific action(s) has been taken by your office to correct the violations enumerated in (c) above, including indemnification of borrowers where appropriate.

2. The position of the Office of the Comptroller of the Currency (OCC) on the merits of noncompliance disclosure, especially:

Mr. Robert Bloom August 26, 1976

(a) notification of borrowers that a loan transaction of theirs may contain a violation of some section of Truth in Lending regulations;

(b) public disclosure, through the media, of individual bank noncompliance with Truth in Lending regulations; and

(c) the relationship of disclosure to the self-enforcing nature of the Truth in Lending Act.

3. The position of the OCC on:

(a) whether national banks located in States exempted from the requirements of the Truth in Lending Act pursuant to Section 123 of the Act should be required to comply with Federal Truth in Lending regulations or the State's Truth in Lending statutes; and

(b) whether State Truth in Lending compliance examiners should be allowed to review the loan files of national banks located in States exempted from the requirements of the Truth in Lending Act pursuant to Section 123 of the Act.

Your testimony on these issues will be greatly appreciated. The Rules of the House of Representatives and this committee require that 50 copies of a witness' prepared statement be delivered to the subcommittee at least 24 hours prior to the presentation of testimony.

If you have any questions concerning this hearing, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dt

August 25, 1976

Hon. Arthur F. Burns, Chairman
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Chairman:

As you know, the Commerce, Consumer and Monetary Affairs Subcommittee has been investigating Federal enforcement of the Truth in Lending Act pursuant to its oversight responsibilities under the Rules of the House of Representatives. I am writing to thank you for the Board's cooperation with the subcommittee's investigation and to request that you or your delegate appear before the subcommittee on Thursday, September 16, 1976, at 10 a.m. in Room 2247 of the Rayburn House Office Building to give testimony concerning:

(1) The position of the Board of Governors on the merits of noncompliance disclosure, especially:

(a) notification of borrowers that a loan transaction of theirs may contain a violation of some section of Truth in Lending regulations;

(b) disclosure through the media of the degree of individual bank noncompliance with Truth in Lending regulations; and

(c) the relationship of disclosure to the self-enforcing nature of the Truth in Lending Act.

(2) The procedures presently followed or being considered by the Federal Reserve System to evaluate the degree of bank compliance with Truth in Lending statutes, to rectify instances of noncompliance, and to indemnify borrowers injured by noncompliance.

Your testimony on these issues will be greatly appreciated. The Rules of the House of Representatives and this committee require that 50 copies of a witness' prepared statement be delivered to the subcommittee at least 24 hours prior to the presentation of testimony.

If you have any questions concerning this hearing, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

The Commonwealth of Massachusetts
Office of the Commissioner of Banks
State Office Building, Government Center
100 Cambridge Street, Boston 02202

September 3, 1976

Honorable Benjamin S. Rosenthal, Chairman
Congress of the United States
House of Representatives
Commerce, Consumer and Monetary Affairs
Subcommittee of the Committee on Government Operations
Rayburn House Office Building
Room B-350 - A B
Washington, D. C. 20515

Dear Sir:

I am enclosing a copy of the data which was compiled concerning the non-compliance findings of the Massachusetts Truth-in-Lending examiners which you requested in your recent letter to Carol S. Greenwald, Commissioner of Banks.

Discussions between my staff and yours indicate that data relative to FDIC findings are relatively inaccessible; therefore, we have not included a comparison in our study.

Commencing in February, 1976, examiners from the Consumer Credit Division were assigned to conduct the Truth-in-Lending and consumer portion of the examination of Trust Companies and Savings Banks. The data enclosed includes only the results of those examinations from February through June of 1976.

As you will notice from the data submitted, the examinations do not encompass 100% of the consumer credit accounts of the institutions and, in some instances, the number of exceptions have been projected. It should be noted that if the exception listed involved incorrect terminology or required terminology not more conspicuous on the printed disclosure forms, all of the accounts examined were included in the number of exceptions.

We also did not have available the dollar amount of rebates involved as was discussed with your staff.

The summary of examinations is as follows:

Trust Companies - February thru June

27 examinations completed

2855 individual exceptions noted

Savings Banks - February thru July 9

42 examinations completed

2254 individual exceptions noted

Totals . . . . . 69 examinations completed

5109 individual exceptions noted

I trust the enclosed information will assist you and the subcommittee staff in the comparison.

Very truly yours,

Robert S. Leadbetter
Supervisor of Loan Agencies

RSL/rf

Enclosures: 2

September 7, 1976

Hon. Arthur F. Burns
Chairman
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Mr. Chairman:

As you are aware, the Commerce, Consumer and Monetary Affairs Subcommittee is investigating Federal enforcement of the Truth in Lending Act. To assist us further in our review of the enforcement procedures of the Federal Reserve, please provide the Subcommittee on or before Tuesday, September 28, 1976, with copies of the following documents:

(1) Page 5(1) of five randomly selected examination reports that contain Regulation Z violations and all supporting documentation tracing the recorded violations from the examination reports through their final disposition.

(2) Five randomly selected compliance reports prepared by each of the Chicago and Richmond regional offices with all documentation supporting the disposition of reported violations.

(3) All instruction circulars to examiners and Federal Reserve member banks relative to the Truth in Lending Act.

For the purpose of this request, it will not be necessary to provide information that would identify specific banks or individualsborrowing entities.

If you have any questions concerning this request, please contact Mr. Robert H. Dugger of the Subcommittee staff.

Thank you for your cooperation.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

JOHN E. QUINN
SUPERINTENDENT

DEPARTMENT OF BUSINESS REGULATION
BUREAU OF CONSUMER PROTECTION
STATE OFFICE ANNEX
AUGUSTA, MAINE 04330
(207) 289-3731

September 8, 1976

Mr. Robert H. Dugger
Subcommittee on Commerce, Consumer
and Monetary Affairs
Rayburn House Office Building
Room B-350-A-B
Washington, D.C. 20515

Dear Mr. Dugger:

I have enclosed the survey requested by Chairman Rosenthal in his letter of August 12, 1976.

As background for the summary itself, it should be noted that the banking industry in Maine was put on notice concerning my enforcement policy concerning Truth-In-Lending in the early months of 1975. This report reflects the degree of compliance accomplished during these months preceding the actual examinations. I would also note that my field examiners are responsible for visiting a number of non-banking creditors such as Sears, J. C. Penney's and others.

On the next to the last page of the report you will find a reference to the examination of the [redacted] in which the 349 Truth-In-Lending violations were recently uncovered. The bank's FDIC number is 17743. We have learned that the FDIC concluded an examination of this bank in November of 1975. Their report of examination included a reference to their Truth-In-Lending examination. Apparently, their Truth-In-Lending examination did not uncover any of the 349 violations involved in the bank's failure or refusal to disclose more than one month's finance charge. In view of the fact that virtually all consumer loans

Mr. Robert H. Dugger
Subcommittee on Commerce, Consumer
and Monetary Affairs

September 8, 1976

issued since January 1, 1975 had contained this type of violation, it seems obvious that the FDIC examinations could not have reviewed so much as a single consumer loan issued in 1975. We did not examine this bank for TIL in 1975.

I will be forwarding a copy of my address to the Committee by Friday, at the latest.

I look forward to meeting with you next Wednesday.

Respectfully,

John E. Quinn
Superintendent

JEQ:cmd
enc.

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF THE CHAIRMAN

September 10, 1976

Honorable Benjamin S. Rosenthal
Chairman
Commerce, Consumer and Monetary
Affairs Subcommittee
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Rosenthal:

This is in response to your letter of August 10, 1976, requesting the following information on a state-by-state basis for each of the following states: Maryland, Delaware, New Jersey, Pennsylvania, New York, Connecticut, Rhode Island, Massachusetts, New Hampshire, Vermont and Maine:

(1) the number, type (commercial bank, savings bank, or other), and average size (year-end 1975 total assets) of the institutions examined by FDIC from March 1, 1975, through July 31, 1976;

(2) the number of negative responses to each of items 1 through 9 of the FDIC Regulation Z compliance reports (FDIC 6500/55 (12-74)) completed in the course of examining the institutions enumerated in (1) above;

(3) the total number of loan transactions and dollar amounts involved if known, cited in the Comments section of the FDIC Regulation Z compliance reports (FDIC 6500/55 (12-74)) completed in the course of examining the institutions enumerated in (1) above; and

(4) what specific action was taken by the FDIC to rectify the situation with respect to each of the transactions enumerated in (3) above.

Enclosed are charts depicting the information requested by items (1) and (2). In a number of cases, the same banks were examined more than once during the relevant time period. The results of the second and third examinations are depicted separately on pages 2 and 3 of the enclosure.

Our staff has discussed items (3) and (4) with your staff and, while we are not providing this information at the present time, we will comment further on these matters in our statement before your committee later this month.

Very truly yours,

Robert E. Barnett

Robert E. Barnett
Chairman

Enclosure

CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

September 10, 1976

The Honorable Benjamin S. Rosenthal
Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I am pleased to respond to your letter of August 13, 1976, in which you requested information concerning the System's enforcement of the Truth in Lending regulations in certain States.

The Federal Reserve enforces those regulations only at banks that are directly supervised by the System, namely, State member banks. I believe you will find that the information in the enclosed table responds fully to your first and second questions. Pursuant to an agreement with your staff, we have not provided detailed information on Truth in Lending violations for banks in Maine, Massachusetts, and Connecticut. These States have been exempted from the Federal provisions of the Truth in Lending Act and banks in those States are therefore subject to State regulations enforced by State banking departments. Furthermore, there are no State member banks in Delaware, Rhode Island, and Vermont.

Your inquiry focuses on page 5(1) of the System's Report of Examination which deals with Truth in Lending compliance. I should point out that in some cases violations of the Truth in Lending regulations may not be reported on page 5(1) but could be included in other sections of the Examination Report. In addition, since Federal Reserve examiners rely on samples and do not examine each note or transaction in a bank, the number of violations noted does not necessarily correspond to the total number of violations.

With respect to your third question regarding the action taken to rectify violations, the nature of the violations and the measures needed to correct any similar violations in the future are

discussed with bank management. Depending upon the seriousness of the violations, the letter transmitting a copy of the Examination Report to the bank may highlight their existence and may ask for a response by a given date indicating the specific steps taken to effect a correction.

We understand that the Committee staff, in preparation for the hearings scheduled for the week of September 13, has expressed an interest in the issue of State exemptions for Truth in Lending enforcement. During recent hearings before the Senate Banking Committee, there was discussion of the issue of exemptions granted to States by the Board under the Truth in Lending Act. It was implied in those discussions that the Board's procedures for granting an exemption do not permit exempted States to enforce the Act with regard to federally chartered creditors. I would like to take this opportunity to clarify the question of State exemption for federally chartered institutions.

The procedures by which any State may apply for and be granted an exemption are set forth in Supplement II to Regulation Z, a copy of which is enclosed for your convenient reference. Footnote 4 under paragraph (b)(5) of that supplement provides that transactions involving the extension of credit by federally chartered institutions are a separate class of transaction for the purpose of granting any exemption. Under this provision, a State may secure an exemption covering federally chartered institutions upon establishing that appropriate arrangements have been made with the Federal agency otherwise charged with enforcing the Act. The purpose of this requirement is to assure effective enforcement of the State's law with respect to federally chartered creditors.

To date, no State has made formal application to the Board for an exemption covering federally chartered creditors. Recently, however, two otherwise exempt States have inquired about the possibility of extending the exemption to cover federally chartered creditors. As yet, no showing has been made in these requests regarding any arrangements for enforcement with the appropriate Federal agency.

I hope this information will be helpful to you and your staff. Please do not hesitate to contact me if I can be of further assistance.

Sincerely yours,

Arthur F. Burns

Enclosures

University of Illinois at Urbana-Champaign

COLLEGE OF LAW · 209 LAW BUILDING · CHAMPAIGN, ILLINOIS 61820 · (217) 333-0931

September 17, 1976

Robert H. Dugger
Subcommittee on Commerce, Consumer and Monetary Affairs
Rayburn House Office Building
Room B 350
Washington, D.C. 20515

Dear Bob:

As per your request, I have enclosed a copy of my record statement as submitted in the Oversight Hearings held by the Senate Banking Committee.

Please let me know if I can be of further assistance.

Sincerely,

Jonathan M. Landers
Professor of Law

JML/llg
enclosure

Record Statement of Jonathan M. Landers, Professor of Law, University of Illinois College of Law and Visiting Scholar, American Bar Foundation, on the Consumer Credit Protection Act, before the Subcommittee on Banking, Housing and Urban Affairs, United States Senate, July 28, 1976.

My name is Jonathan M. Landers, and I am a Professor of Law at the University of Illinois College of Law and a Visiting Scholar at the American Bar Foundation. As a Visiting Scholar at the American Bar Foundation, I have been engaged in a research project on the Truth in Lending Act. That research project has already resulted in two published papers in the American Bar Foundation Research Journal, one paper presently in the editorial process and to be published in October, and a number of other research efforts in various stages of completion. I want to emphasize, however, that this testimony and any conclusions are solely my own and do not represent the views of the Foundation or of any institution with which I am affiliated.

The TIL Act has hardly been a complete success. As evidence, there is the sheer inscrutability of most TIL statements, and persistent creditor claims that it is impossible to devise TIL forms which comply with the statute and regulation. Then, too, there is the fivefold increase in TIL cases in the federal courts in the past four years; this increase taking place at a time when creditors were presumably becoming more familiar with the statute and its requirements. And, the matter may get worse: most TIL litigation is now concentrated in three districts—Northern Georgia, Connecticut, and Eastern Louisiana, with lesser but substantial amounts in four or five others. If TIL cases were to be as vigorously pursued in all districts, the number of federal cases might be 10 or 15,000 rather than the present 2,200.

It is clear that the original proponents of TIL did not foresee this situation, and it is necessary to ask how and why it developed and what can be done. Can TIL statements be simplified, and if so, what the costs? Can the number of lawsuits be reduced while still furnishing consumers with the basic protections afforded by the TIL Act? Such questions can best be understood if one understands how the present situation developed.

I. How the Present Situation Developed

In my judgment, the present predicament is the result of two basic factors. First, the fundamental shift of TIL from a credit cost disclosure law to a credit term disclosure law which required selective disclosure of some, but not all, of the terms of consumer credit contracts. Second, the emergence of the TIL suit as the most efficient and effective remedy for a vast number of consumer grievances and difficulties.

A. Background: The Shift from Credit Cost Disclosure to Selective Credit Term Disclosure

1. TIL as Credit Cost legislation. It is well known that the late Senator Douglas was a major proponent of TIL legislation, but it is generally thought that he conceived of the idea shortly before the first TIL bill was introduced in 1960. In fact, the idea originated more than a quarter of a century earlier when then Professor Douglas was on the NRA Board of Fair Competition for the finance industry. At that time, he proposed that the Code provide for consumers to be given a true statement of the cost of credit and the annual percentage rate.

The notion that TIL was a credit cost disclosure bill permeated the eight years of hearings on TIL. Supporters of TIL argued that credit cost disclosure was necessary to enable consumers to compare credit costs and to decide whether to use credit or to take funds from savings or defer purchases, and to act as a contra-cyclical economic force. These arguments were relevant to the credit cost disclosure provisions of the bill. The credit cost focus was well recognized by the opponents of the bill who argued that the APR would be difficult or impossible to compute, that the finance charge could not be determined with precision, and that consumers would not understand the APR concept. The point is that the issue as presented to Congress originally was: should a bill be enacted to tell consumers the APR and finance charge on consumer credit transactions.

The perception of TIL as credit cost disclosure legislation is reflected in the statement of purposes in section 102 of the Act. It states the

objectives of TIL as (a) enhancing economic stabilization; (b) promoting competition among credit grantors; and (c) permitting consumers to be aware of the cost of credit to compare terms and avoid the uniformed use of credit. This process would work as follows: consumers would get an accurate statement of the cost of credit. Having this, they could then decide whether credit was too costly or whether the cost was justified in terms of the benefits. Then, they could shop for the lowest cost among different creditors. Creditors, in turn, would compete with each other to offer the lowest possible credit costs, thus leading to lower credit costs for all consumers. Finally, consumer credit might act as a contra-cyclical economic force to promote the use of cheap credit in times of economic hardship thus facilitating an economic recovery. There is, to be sure, considerable question whether these expectations were realistic, and whether the provisions themselves were effective to accomplish such objectives. Some of these are discussed in Part III. But ideally, the above model appears closest to the understanding of the enacting Congress.

In terms of these objectives, it is clear why the proponents envisioned TIL as, fundamentally, a simple statute. The credit decision would be made in terms of cost--that is, consumers would decide on credit once they knew the cost. For this purpose, consumers needed relatively little information--the Annual Percentage Rate, the finance charge, the amount financed, and perhaps, the periodic payment. I say "perhaps" because one of the objectives of TIL was to get consumers away from using apparently cheap credit with small monthly or weekly payments by emphasizing the true cost of such "easy" credit. I suspect that most

proponents thought of TIL as a statute enabling the consumer to compare the APR and the finance charge. Indeed, one basis for the arguments that the act was simple was the notion that it could not be that difficult to compute these two figures.

2. The Shift to Credit Term Disclosure. A glance at a typical TIL statement reveals that the APR, finance charge, the amount financed, and the monthly payment are included among a large number of other disclosures, and even, partially submerged in these other disclosures. To be sure, the terms Annual Percentage Rate and Finance Charge must be more prominent than others, but in practice, this means slightly larger type. What are all these other disclosures: they are basically disclosures relating to the terms of the transaction, and to a lesser but signficiant extent, disclosure of the steps used in computing the amount financed and the finance charge. Thus, TIL is no longer a credit cost disclosure law, but has become a law which requires selective disclosure of some of the underlying terms and computational figures.

This process began in the act itself. Thus, the Act required disclosure of (1) the number, amount, and due dates of payments; (2) default, delinquency, or similar charges in the event of late payments; (3) a description of the security interest; (4) at least five separate disclosures to determine the amount financed and frequently subdisclosures for some of these steps; and (5) special disclosures relating to insurance.

The process continued in Regulation Z and FRB Interpretive Rulings, and the board not only expanded the term and computational disclosures, but added new requirements of terminology and presentation. For example,

(1) computation disclosure included the deferred payment price (total price plus finance charge); (2) disclosure was required of prepayment penalties as well as the method of computing rebates for prepayment; (3) disclosure was required of the method for computing default or delinquency charges; (4) disclosure was required of the components of the finance charge, and separate disclosure of so-called prepaid finance charges; the latter, apparently, to make sure such amounts were not included in the amount financed; (5) the statutory provision for disclosing the amount financed was complicated by an extremely confusing provision on required deposit balances and a number of ill-defined exceptions; (6) the term unpaid balance was used as a subtotal for cases in which there was a required deposit balance or a prepaid finance charge and in such cases, there were seven computational contegories to determine the amount financed; in cases where there were no deposit balance or prepaid finance charge it was never clear whether the term unpaid balance, amount financed, or both applied to the amount of credit received by the consumer; and (7) interpretive rulings required disclosure of the term of insurance coverage, pick-up downpayments, and variable rate loans. To all this was added still another requirement: that the disclosures be clear, conspicuous, and in meaningful sequence. Now the volume of disclosures themselves presented somewhat of a contradiction, and interpretation of the regulation was further obscured by a board model form which was confusing in the extreme. There should be no wonder that creditors had trouble complying.

At the same time that the statute and regulation moved to credit term disclosure, there was a subtle shift in thinking about the objective of TIL to permit credit decisions in terms of cost. This new philosophy

suggested that consumers had a right to know the important terms of their credit transaction; the new view was expressed in terms of disclosure of information consumers would want to know, and was reflected in court decisions which hypothesized a reason why a consumer might want to know this or that item of information. This "all relevant factors" approach differed markedly from the consumer shopping rationale because TIL disclosures were not tied in with a particular use for the information, and there were no boundaries for the creditor's obligation to disclose. Moreover, there was at least the suggestion that TIL might require disclosure of information which, while not directly relevant to the credit decision, might be useful if the transaction broke down. Such open concepts as providing useful or interesting information or transaction breakdown information, were to haunt courts and creditors attempting to decipher the Act's requirements.

B. The Effect of the Switch to Credit Term Disclosure on TIL Statements and TIL Violations

The shift from credit cost disclosure to credit term disclosure had a dramatic and devestating impact. Compliance was made many times more difficult since disclosure was not limited to the basic numbers which are the essence of all consumer credit transactions, but extended to some, but not all, of the operative contractual terms of the transaction. The problem was compounded because Congress and the board emphasized the credit cost disclosure provisions in formulating the disclosure requirements with the result that the term disclosure provisions were not as clearly designed or easy to apply. And, selective term disclosure resulted in more outright

violations, and even more significantly, more arguable violations. The arguable violation standard is signficant because this is likely to be the issue for a plaintiff considering a lawsuit: can a credible argument be made of a TIL violation which presents a sufficiently good probability of success to justify the litigation.

The reason term disclosure made compliance much more different is that term disclosure lacked the precision of meaning as the numerical categories. Creditors always used rather lengthy contracts, and the effect of TIL was to require some but not all of the contractual provisions to be broken out separately as part of the TIL statement. In addition, ccnsumers might always argue that some provision in the contract modified or affected the terms which were disclosed so that further disclosure was required. Thus, short of including the entire contract on the disclosure statement, it is difficult to be sure what was included. Moreover, when courts considered the cases of term disclosure, they had no clear philosophic backdrop. If the "all relevant factors" philosophy applied, and the court thought a consumer might find the information helpful, disclosure might be required. And, the notion that TIL included disclosure of transaction breakdown information permitted creditable arguments for disclosure of much of the underlying credit contract.

Let me offer one example. TIL requires disclosure of default charges but it may be argued that any creditors' remedy in the event of default is a form of charge which should be disclosed. For example, it seems relatively clear that the authors of these provisions intended to cover a charge of $2.50 if the consumer is late in making a payment. But it may be argued that the creditor's right of acceleration ought to be disclosed

under such a provision. Surely, such a right of acceleration is more serious from the consumer's point of view than the $2.50 charge, and is information which a rational consumer might want to know about. The result has been a vast amount of litigation on this precise issue.

The requirements of credit term disclosure and the computational disclosure had another, and equally detrimental, effect. The TIL statement became lengthy and unwieldy, and also, since more categories of information were being provided, there was a much greater chance of a creditor mistake. This latter point becomes especially important when it is remembered that many TIL statements are filled out in the store in the "heat" of the transaction.

Moreover, as credit term disclosure and computational disclosure became increasingly important, creditors often attempted to protect themselves by even more comprehensive and complete disclosure. This created the risk of still new violations. And, when creditors turned to the Board or its staff for assistance, the result was sometimes more required disclosures or more complex statements of the transaction.

Finally, the effect of term disclosure made board promulgation of model forms a doubtful enterprise. In its initial pamphlet on TIL, the Board did include a number of model forms. Then courts began to hold that some of the forms violated the act or regulation because of inadequate term disclosure. This is understandable because term disclosure simply does not lend itself to uniformity of statement. The result was that subsequent versions of the pamphlet have omitted the forms.

In short, the requirement of selective term disclosure and the all is relevant philosophy made compliance extremely difficult and the chance of a violation extremely high. When this was combined with certain litigational factors which encouraged TIL suits, the predictable result was a rapid growth in TIL litigation.

C. TIL Litigation.

Although the TIL remedy provisions were designed to enforce the disclosure provisions, they have taken on a far different character. In many jurisdictions, they are the most effective remedy for consumer grievances of any type.

1. How TIL Cases Originate.

It should be obvious that few clients come to a lawyer's office with an inkling that they have a TIL claim. To do so would require consumers to know the intricate provisions of the statute and Regulation Z, and except in the case of omitted disclosures, that the TIL statement did not comply. What, then, gives rise to TIL suits?

Four factors account for the predominate number of TIL lawsuits. First, if the credit transaction involves a purchase of goods and services, there is a dispute involving the product or service. For example, the consumer may claim a breach of warranty, breach of contract, failure to service, misrepresentation, failure of consideration, or the like. The consumer frequently responds to such problems by stopping payment of the underlying obligation. When the creditor either sues or threatens suit the consumer seeks legal help and a TIL lawsuit results because there is

also a TIL violation and the TIL suit is the most effective remedy. Second, and much less often than the first, the consumer becomes dissatisfied with the credit terms of his contract. For example, the monthly payment may turn out to be higher than he thought, he may look at the contract and find that extra charges have been added, or the like. Again, the result is a TIL suit, although it may be for a TIL violation which is different than the consumer's actual complaint. Third, and perhaps almost important as product related cases, are situations where the creditor is being dunned or sued for a debt and simply cannot pay. He may have lost his job, become sick, become overextended, or the like. He seeks legal advice having heard of bankruptcy or simply to do something to take the pressure off. The lawyer then examines the contracts and determines that one way to take the pressure off--and maybe give a few dollars to the consumer as well as pay his fee--is a TIL action. Thus, an affirmative TIL action is brought instead of a bankruptcy or insolvency proceeding. Fourth, TIL suits may be brought by bankruptcy trustees. A number of courts have held that TIL claims pass to the trustee. Indeed, there is reason to think that trustees have been extremely laggard in pursuing such claims. If trustees started prosecuting these claims with any degree of diligence, there could be several thousand additional cases each year.

It is doubtful that the Congress thought of TIL as a substitute for state substantive law in consumer transactions, let alone, as a statute to be used by consumers as an alternative to bankruptcy. But this is how it has been used. To be used in this manner, TIL had to be a more effective remedy than state law. In fact, there were strong incentives for plaintiffs to bring TIL suits, and a strong disincentive for defendants to litigate.

2. Why Use TIL?

(a) Substantive advantages. It should be apparent why consumers would prefer an affirmative TIL suit to a bankruptcy petition, but it is less apparent why consumers will prosecute TIL claims in lieu of state law product-related claims. The basic reason is that state law protecting consumers is usually much less favorable to the consumer than TIL. This Committee has previously heard of the frequent inability of consumers to enforce product-related claims under state law because of such legal rules as holder in due course, waiver of defenses, warranty limitations, the parol evidence rule (forbidding evidence of terms outside of the written contract), and damage limitations (the consumer's remedy is the difference between what he got and what he should have gotten--maybe only a few dollars). In contrast, TIL violations were easy to find and provided more substantial damage recoveries.

In addition, it is not an either/or situation because the consumer may bring the state law claim as well. But, because the TIL claim was the more viable one, it tended to have the strongest impact on settlements and litigation strategy. In fact consumers were winning TIL cases on the merits with some frequency.

(b) Procedural advantages. Procedurally, there were two major factors stimulating TIL suits rather than state law suits. First, TIL suits could be brought in the federal courts. The fact is that consumers and their representatives perceive the federal courts as offering a better brand of justice than state courts. Federal judges are thought to be more willing to enforce the law as written and federal procedures are thought to be substantially better.

Second, TIL issues are primarily questions of law, and are thus amenable to minimal factual investigation, simple pleading rules, little or no pre-trial discovery, and decision on summary judgment rather than a full trial. Since amounts in consumer cases are small, the economies of suit suggest a TIL action rather than a state action on a product claim which may require detailed pleading of fraud allegations, substantial discovery, and a full-scale trial.

There was another procedural advantage in some districts in which it was held that the creditor's counterclaim on the underlying debt could not be brought in the federal courts because of jurisdictional limitations. In such courts, a TIL suit is risk free for the consumer, whereas an action in a state court could subject the consumer to liability on the underlying debt.

(c) Attorney's fees. By definition, most consumer claims are small. The monetary amounts involved simply do not permit them to be economically prosecuted by attorneys. In such cases, attorney's fees would almost always exceed the probable recovery. But TIL was different because it provided attorney's fees for successful plaintiffs, and the amount was not related to the plaintiff's recovery. For example, in one well known case, attorney's fees of $20,000 were awarded on a $100 claim, and in many others, fees of several thousand dollars have been awarded even though the maximum damage recovery is $1,000. While plaintiffs' attorneys might make some judgment on the likelihood of winning (and thereby getting paid), if they thought they could win there was a strong incentive to use TIL. In contrast, a state law action was, practically, often out of the question for a private attorney.

3. Defendants' Disincentives to Litigate.

The dynamics of TIL litigation suggest that it is frequently to the creditor's advantage to settle rather than to litigate even if he thinks he has a good chance of winning. Consider this case: a creditor is sued for $1,000 (the maximum recovery) in a case that he thinks he has a 75% chance of winning. He analyzes the risks and benefits as follows:

(a) If he wins, it will cost him $1,500 in attorney's fees: assuming a low hourly rate of $30, this buys 50 hours of a lawyer's time which is certainly a low estimate for litigation which may involve several court appearances, some discovery, and some legal research.

(b) If he loses, it will cost him $4,000: $1,000 in damages, $1,500 for plaintiff's attorney's fees, and $1,500 for defendant's attorneys' fees (on the same assumptions as above).

Now, plaintiff offers to settle for $1,300 which gives the consumer full recovery, and even pays the plaintiff's attorney a fair rate for the few hours of time which have been expended. Defendant notes that it will cost more to win than to settle and three times more to lose. This does not necessarily mean that every case will be settled. Instead, a defendant must litigate some cases to give any threat of an all out fight a semblance of credibility. But it does suggest a hard look at the risks in cases which the defendant has a substantial chance of winning. When the chances of winning decrease to 50% the incentive to settle becomes large indeed.

Indeed, this litigational imbalance of paying attorneys' fees for successful plaintiffs can lead to a form of strike suit litigation. In

this, a plaintiff's attorney simply files a complaint alleging TIL violations in general terms without any notion of whether a violation has occurred. Before expending any substantial time, plaintiff offers to settle for a fraction of what it will cost the defendant to fight the case. In fairness, I have no hard evidence that this is taking place, but the economics suggest that it might occur.

The second disadvantage to defendant in litigating is the severe impact of a loss. Remember that the effect of a decision which holds that defendant's form is in violation is, in effect, to declare every single transaction in which that form was used to violate TIL. To be sure, the defendant may argue the issue again if raised, but if the case arises in the same district or before the same judge the chances of winning the second time around are small indeed. And, they may not be much greater in another district. As a consequence, the defendant has to weigh every case extremely carefully because of the risk that thousands or tens of thousands of contracts may be called into question. And, too, the defendant who litigates must be willing to accept the practical reality that the consequences of an adverse decision will almost always dictate an appeal to protect the form.

Again, this does not say that all cases will be settled. But, it cannot be denied that realistic defendants might frequently settle rather than fight.

4. Ability of Plaintiff's to Win TIL Suits.

Despite all of these procedural and substantive advantages, another ingredient was absolutely essential in making TIL suits viable. Plaintiffs

had to win and have a reasonable chance of winning enough cases to make the possibility of a plaintiff victory realistic and necessary to contemplate. Two major factors operated to more than satisfy this requirement.

First, a number of creditors have used forms which are not even close to compliance. Thus, if one takes as a minimal standard for compliance the FRB forms which were promulgated in 1969 and available to all creditors, there have been widespread use of forms which do not approach this level. Indeed, in some cases this borders on an almost arrogant and wilful refusal to comply. In my own study of TIL cases, I have been amazed at the number of cases in which the forms left out clear and long-standing statutory requirements. These forms are not cases of arguable and technical violations, but cases of clear cut violations in which there is no substantial chance plaintiff will lose. That defendants frequently settle such cases should not be surprising.

But even creditors who have attempted to comply have run into the problem noted earlier--the virtual impossibility of complying in the area of term disclosure. Thus, it has been consistently possible for consumers to argue that some term of the contract should have been disclosed, that undisclosed terms modified disclosed terms, that the statement was confusing, or that some numerical computational element has been omitted. Even creditors who had attempted to comply found themselves subject to such arguments, and uncertain whether they would prevail. In short, the vagaries of term disclosure and an all is relevant philosophy worked in tandem with strong litigational advantages in TIL actions, to produce an ever increasing number of suits.

5. Summary.

These factors suggest the reasons for the TIL explosion of cases. First, the increasing emphasis on contractual term disclosure made it relatively easy to formulate disclosure issues. Second, the judges who had to decide these early cases, had no clear rationale upon which to act, and tended to say that, well of course, this or that might provide some information to someone under the circumstances, or anyway, the consumer might want to know it, and the result was a number of decisions which called into question thousands of credit contracts. Third, with the initial sweep of TIL litigation so successful, attorneys began to scan documents more carefully, and to be willing to bring cases with, perhaps, less obvious violations. Fourth, creditors frequently cooperated by using forms which were either clearly invalid, or sufficiently doubtful to make a successful TIL suit likely. The chances for finding a violation or arguable violation were high indeed.

II. Some Policy Choices

There is such a thing as too much disclosure--too much for consumers and too much for creditors. From the consumer viewpoint, disclosure reaches this level when more information is given to consumers than they can effectively use in the transaction. Thus, the more information offered, the less capable the consumer becomes of sorting it out, judging what is important, and using that in the credit decision-making process. Persons who are overwhelmed tend to disregard the disclosures entirely. Thus, the objectives of TIL are more compatible with an attempt to provide consumers with the most important information simply stated.

From the creditor's point of view, there is too much disclosure when, considering the nature of the transactions involved, creditors of goodwill who attempt to comply face a substantial risk of being held in noncompliance in ordinary and regular transactions. There is little question that this level has been reached.

In my view, TIL should return to its original purpose as a credit cost disclosure law, and should be radically simplified to serve this objective. By simplified, I mean both from the point of view of consumer understanding and creditor compliance. We must abandon the notion that TIL is a statute designed to disclose information which a hypothetical consumer might find helpful, or that TIL should be an omnibus litigation tool for consumer grievances. Instead, TIL disclosures should be those which are most useful to the ordinary consumer.

To serve this simplified objective, disclosure should only be required of: (1) the creditor's name;* (2) the annual percentage rate; (3) amount financed; (4) the finance charge; (5) the cost of optional credit life and credit accident and health insurance; (6) the total of payments; and (7) the number of periodic payments, period, and the date of the first and last payments. The statement might look as follows:

---

*In this connection, Congress or the board ought to resolve the question whether the assignee of a consumer contract is a creditor under the Act.

ABC Motors, 1234 First Street, Anytown, Anystate

Amount Financed	$4,000
Finance Charge	1,000
Insurance (this is optional and may not be required)	400
Total of Installments	$5,400

This total of $5,400 is payable in 36 monthly installments of $150. The first installment is due August 1, 1976, and the last is due July 1, 1979.

ANNUAL PERCENTAGE RATE	16.2%

I have received a copy of this disclosure statement

_____

Customers

I offer the following reasons to support this proposal:

First, this statement provides the essential information the consumer needs to shop effectively for credit on a comparative basis or to decide whether to enter consumer credit transactions.

Second, the information is not hidden in a mass of other disclosures. In my judgment, the more information that is provided, the less likely it is that the consumer will use any of it. The consumer's attention is diverted from any individual disclosure, and he becomes so overwhelmed by disclosers.

Third, these items are standard from jurisdiction to jurisdiction, and permit virtually identical disclosures by different types of creditors in different types of transactions. Moreover, this commonality should permit the board to promulgate model forms which are in compliance, and should minimize the need for supplemental FRB opinions or interpretations.

Fourth, it should be considerably easier for small creditors to comply with a minimum of legal expense and effort.

Fifth, and not previously mentioned, are the modified insurance disclosures. There are two elements to my proposal. The cost of credit life and credit accident and health insurance should be excluded both from the amount financed and the APR because it tends to distort the disclosures regardless of which it is included within. Second, although the present optional test has both a substantive requirement of optionality and an evidentiary requirement of signature, there is no evidence that this evidentiary requirement is providing significant protection for consumers.* Much the same effect could be obtained under the suggested provision without the present complications.**

* Many creditors still are reporting "insurance penetrations" of between 95 and 100%.

** By the same reasoning, liability and property insurance will be included in the amount financed unless the consumer does not have the option of obtaining his own coverage. This does not appear to be a significant problem area warranting further disclosures.

If the above are the benefits, what are the costs. And, are these costs significant?

First, virtually all term disclosures would be eliminated from the statement. To me, these are justified for both practical reasons and reasons relating to the objectives of TIL.

(1) In practice, it is impossible to define with precision which terms must be disclosed.

(2) Much of the term disclosure relates to the possible breakdown of the transaction and creditors' rights if that occurs.* But, most consumers do not expect their transactions to break down and the vast majority do not break down. Thus, we devote considerable space to information which is largely irrelevant in the decision-making process. Despite its effective irrelevance, this information takes up a substantial part of the TIL statement, and substantially detracts from the other disclosures. Similarly, except in real estate transactions, consumers do not contemplate prepayment and such terms are not significant in the decision-making process. But stating the rules accurately is extremely difficult.

(3) The technical terms of the contract tend to be relatively standardized and do not lend themself to either comparison shopping or effective bargaining. This is because the economic effect of the terms is small and consumers may be expected to shop or bargain on the key items -- the finance charge and the APR. In this connection, the National Commission on Consumer Finance noted that credit cost decisions were much less important to consumers than product related decisions and consumers thus emphasized product shopping.

* If consumers are to use the TIL statement to determine their rights of the transaction breaks down, then the present statement is poorly suited to this end. It does not inform consumers of what post-transaction recourse they have to withhold payment or obtain other relief.

This same argument can be made in connection with credit shopping, viz., that if consumers do shop for credit they will compare what is most important--the cost--and not a variety of subsidiary terms. To me, the notion that consumers would shop because of a $2.50 late charge is absurd.

(4) Many of the term items are regulated by state statutes, and disclosure provides little or no additional protection to consumers. If creditors systematically violate the state provisions, they should be enforced by state authorities.

(5) The terms will be disclosed in the contract between the parties. Thus, the issue is not disclosure vel non, but rather, where the disclosure should be--on the TIL statement or in the contract.

(6) In sum, the basic choice is between providing a large volume of information which may be marginally useful to an occasional consumer at a cost of complicating the TIL statement for all consumers. I would avoid this cost.

Second, virtually all the computational disclosures would be eliminated from the statement. My belief is that these were not really intended to provide consumer information as much as to make sure creditors got the other disclosures--principally the amount financed and the finance charge--correct. And, these same computations are usually provided on a bill of sale or other document. Moreover, the consumer can always ask about them. We cannot assume on the one hand that the consumer is going to be sufficiently sophisticated to use the present intricate TIL statement without help and bargain with creditors over the credit terms and at the same time be afraid to ask creditors how they arrived at figures in the contract. While requiring extensive computational disclosures may deter violations by a few creditors,

it does so at the price of intelligibility of the statement. Finally, if there is really cause for concern, the Act could give the consumer the right to request a statement of how the amount financed was determined.

Third, the requirement of finance charge itemization will be eliminated. While itemization may alert consumers to the presence of charges which he might bargain away or shop to eliminate the key comparison factor is the total finance charge. The original Congress apparently thought consumers could make it without itemization, and the benefits of simplicity for all outweigh the benefits that a few may derive from getting this particularized information. Moreover, the present provisions are unfair in that they presumably require itemization by creditors who contract with outside parties for services but not by creditors who internalize their costs.

It should be noted that since itemization was required by the board, this is presumably a step that can be taken by regulation.

Fourth, the prepaid finance charge and required deposit balance concepts should be eliminated. The former was designed to make sure that creditors did not include such amounts in the amount financed, and creditors should be able to do it without separate computation. Moreover, the board has virtually conceded that specifying such charges serves no disclosure function and that the concept has no economic significance. Similarly, the elimination of the required deposit balance is possible by defining the amount financed in terms of the amount of credit of which the consumer has actual use. There is no need for this extra computational step.

These are both FRB concepts and can presumably be eliminated by regulation.

Fifth, security interests will no longer have to be described or disclosed. Consumers generally realize that there is a security interest in items purchased in a credit sale, and little purpose seems served by disclosure. Moreover, the description of the security interest is normally couched in technical language which is not comprehensible by most consumers. In addition, the taking of security is increasingly covered by state statutes which limit the available security and prevent the taking of excess security. Finally, there is no indication that consumers bargain over security. Thus, the benefits from the present provision tend to be ephemeral.

Sixth, consumers' ability to use TIL as a litigation tool will be sharply curtailed because there will be many fewer violations or arguable violations. It may be that the present system satisfied some rough sense of justice if creditors who violated TIL committed other anti-consumer practices, but this was not the intention of TIL. Moreover, it was an extremely inefficient method for consumers since it did not help the vast number of consumers who did not sue but were faced with complex TIL statements and was grossly unfair to creditors who found it virtually impossible to comply. Moreover, the impact was selective: only those persons who sought legal representation and whose lawyers knew about TIL could use it to achieve such rough justice.

In this connection, one advantage of simplification is that it should curtail the need for an extensive administrative apparatus to deal with questions, and a doctrine of substantial or good faith compliance which is being proposed as a way out of the present situation.

I have doubts about proposals to give administrators the power to issue opinions answering uncertainties because these generate further questions over the precise scope of the administrator's power, and whether a particular transaction was fairly presented for decision. In addition, a doctrine of substantial compliance is difficult to apply and may lead to more litigation. And, if the Act is too complex for reasonable compliance by creditors, then such a doctrine simply ignores the underlying problem and does so in a manner which is unfair to consumers who are still confronted with hypertechnical TIL statements.

III. Some Concluding Observations

My testimony has attempted to analyze the reasons for the great complexity in the TIL rules for closed end credit, and has made some suggestions for revision. I have not, however, discussed open end credit and this is because the rules appear to be more workable, or at least, there is a much smaller volume of reported cases and creditor complaints. This is not to say that the rules are perfect: the typical open end statement has so many numerical categories of information that it takes a substantial amount of time just to figure out what information is being conveyed. But from the creditor's viewpoint, the similarity of transactions between different jurisdictions and the absence of a need to make substantial term disclosures, have permitted a relatively high level of compliance.

In addition, I have not mentioned some of the areas of TIL which probably need some attention. For example, the timing of closed end disclosure permits disclosure to be made after the consumer is psychologically and morally

committed to a particular transaction. Open end disclosure statements emphasize the APR and not the method of determining the balance. Yet APR's tend to be the same among different creditors, and significant differences exist in methods for determining the balance. Such information is probably more important to consumers than the APR. We need to be more precise in defining the line between open and closed end credit since there is some evidence that creditors who have traditionally used closed end credit to sell big ticket items are switching to open end accounts. This shift may become a stampede if a number of creditors perceive the open end method to present fewer TIL risks. But, an open end account does not state the finance charge at all, and states only a nominal APR. It may be that creditors should not be permitted to use open end accounts for purchases of more than a certain amount. The sale of insurance continues to be a problem area, but my own view is that this cannot be dealt with unless there is to be a revision of rate ceilings on consumer transactions at the state level. When the creditor's normal market power is reinforced by a rate structure which sets rates below market levels and permits the sale of insurance outside of the rate structure, it may be expected that most consumers will purchase insurance. Moreover, consumers have no information to judge the value of coverage, and the amounts seem relatively small thus encouraging the purchase. When most consumers wind up purchasing coverage, the only thing I find surprising is that both regulatory and legislative bodies seem to think that something is wrong. Finally, the persistent problem of burying probably makes finance charges as stated by sellers frequently inaccurate and prevents direct comparisons between sellers and direct lenders.

On a more basic level, the question may be asked whether TIL is worth it. My response is that it is impossible to tell because it has not, in a real sense, been tried. By my testimony today, I hope to hasten the day when that trial begins.

September 24, 1976

Mr. Thomas Taylor
Office of the Comptroller
of the Currency
490 L'Enfant Plaza
Washington, D. C. 20036

Dear Mr. Taylor:

Your testimony before the Subcommittee on September 16, 1976, regarding the Comptroller of the Currency's enforcement of the Truth In Lending Act was quite helpful and appreciated. A number of issues were raised during the hearing, however, that need further elaboration for inclusion in the record. If you would provide responses to the following questions on or before October 8, 1976; it would be appreciated.

1. What types of truth in lending violations are referred to in the appended chart in your September 16, 1976, statement?

2. On page four of your statement you say, "If the customer has suffered a significant loss, such as with the miscalculated annual percentage rate, the bank has been directed to reimburse the customer for the excess amount charged."

   Are there any instances where you directed a bank to reimburse a borrower but that bank has yet to make the requested restitution? If there are such instances, please provide with respect to each violation (a) the dollar amount of reimbursement involved, (b) the reason for the delay, and (c) whether the statute of limitations has expired.

If you have any questions regarding this request, please contact Mr. Robert H. Dugger of the Subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

FBRA - Truth in Lending - Corr

September 28, 1976

Mr. Thomas Taylor
Office of the Comptroller
of the Currency
490 L'Enfant Plaza
Washington, D. C. 20036

Dear Mr. Taylor:

With reference to my letter of September 24, 1976, please also provide on or before October 8, 1976:

1. the number and average size (year-end 1975 total deposits) of all national banks located in the region covered by the Special New England Survey of national bank compliance with the Truth In Lending Act;

2. the average size (year-end 1975 total deposits) and the size range (year-end 1975 total deposits of the smallest and the largest banks) of the 27 national banks included in the New England Survey; and

3. an estimate of the number of truth-in-lending violations found in the course of conducting the special survey.

Thank you for your assistance.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dt

FBRA - Truth in Lending Hearing
9-16-76

September 28, 1976

Hon. Philip C. Jackson
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Governor Jackson:

Your testimony before the subcommittee on September 16, 1976, regarding the Federal Reserve's enforcement of the Truth In Lending Act was quite helpful and appreciated. A number of issues were raised, however, that need further elaboration for inclusion in the hearings record. If you would provide responses to the following questions on or before October 15, 1976, it would be appreciated.

1. On page 7 of your prepared statement you, on behalf of the Board, declined to take a position on the three noncompliance disclosure issues raised by the subcommittee until the Board has received the report of a special Task Force. Though the Task Force is described on page 6 of your statement, it is not clear how the Task Force will deal with noncompliance disclosure. Please provide documentation such as implementing correspondence, reasearch proposals, discussion agendas, etc., that would indicate how the costs and benefits of noncompliance disclosure will be analyzed.

2. Is it the Board's intention to request the Consumer Advisory Council to consider the merits of noncompliance disclosure and advise the Board of its findings?

3. What proportion of the credit covered by the Truth in Lending Act is extended by commercial banks?

If you have any questions regarding this request, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dt

FBRA - T-I-L HRG

September 28, 1976

Hon. Robert Bloom
Acting Comptroller of the Currency
490 L'Enfant Plaza
Washington, D. C. 20036

Dear Mr. Bloom:

By letter of August 25, 1976, I requested among other things, the position of the Office of the Comptroller of the Currency on preemption of Federal consumer protection laws by similar State laws. The terms of the Truth In Lending Act give the Federal Reserve Board responsibility for establishing regulations to effectuate the Act and for determining what classes of credit shall not be subject to the Act.

Pursuant to this authority the Board has declared that all transactions in which a national bank is creditor constitute a separate class of transactions not subject to exemption from the Federal Truth In Lending Act unless the Board is satisfied that appropriate arrangements have been made with your office to assure effective enforcement of substantially similar State laws.

In his testimony before the Commerce, Consumer and Monetary Affairs Subcommittee, Associate Deputy Comptroller Thomas Taylor said on pages 5 and 6 of his prepared statement:

> "We think the Board has exercised discretion and prudence in declining to include national banks in the exemption from Federal consumer protection laws before our Office, which has the primary supervisory and regulatory responsibility for national banks, is assured that enforcement capabilities of the State are suitable." (Emphasis added.)

With regard to obtaining such assurance of enforcement capability, please provide complete responses to the following questions.

1. What procedures must an applicant State follow to assure the Office of the Comptroller of the Currency that it is capable of enforcing compliance with State truth in lending laws and regulations by national banks located in that State? Please provide the subcommittee with all documents that set forth these procedures.

2. What are the factors and standards which your office considers in determining whether the applicant State's truth in lending "enforcement capabilities" are "suitable"? Please furnish the subcommittee with all documents that set forth these factors and standards.

3. What States have communicated with your office with regard to obtaining a Section 123 exemption for national banks located in their States?

4. What is the status of each of these inquiries?

I would appreciate receiving responses to these questions on or before October 15, 1976. If you have any questions regarding this request, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

FBRA - Truth in Lending - Hearing
9/15/76

September 29, 1976

Mr. John Quinn
Bureau of Consumer Protection
State Office Building
August, Maine 04330

Dear Mr. Quinn:

Your testimony before the subcommittee on September 15, 1976, regarding Maine's enforcement of its truth-in-lending laws and regulations was quite helpful and appreciated. A number of issues were raised during the hearing, however, that need further elaboration for inclusion in the record. I would appreciate it verymmuch if you would provide responses to the following questions on or before October 15, 1976.

1. Is there any relation between Maine's policy of noncompliance disclosure and the reduction in the number of examiners needed to enforce Maine's truth-in-lending laws? If so, please describe the relationship in detail.

2. Please furnish the names of those financial institutions whose degree of truth-in-lending noncompliance your office has disclosed to the public, and copies of the disclosure statements, press releases, etc.

3. What were the effects and consequences, both adverse and beneficial, of each of the disclosures noted in 2. above.

4. Please provide a copy of Maine's truth-in-lending laws and regulations.

If you have any questions regarding this request, please contact Mr. Robert H. Dugger of the subcommittee staff.

Thank you again for your assistance.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dt

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, D.C. 20429

OFFICE OF DIRECTOR · DIVISION OF BANK SUPERVISION

October 5, 1976

Honorable Benjamin S. Rosenthal
Chairman
Commerce, Consumer and Monetary
Affairs Subcommittee
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Rosenthal:

During the Subcommittee's oversight hearings on September 16, 1976, Mr. Brown asked about the types of Truth in Lending violations the three banking agencies were finding and an indication of which types might be regarded as "technical" in nature as opposed to "substantive" or seriously harmful to the consumer.

Insofar as the FDIC is concerned, the attached table indicates generally the types of violations our examiners have been finding. As we indicated in our prepared statement, our examiners have tended to examine for compliance with the basic requirements of Truth in Lending. Consequently, most of the violations indicated we believe are substantive in nature since they very likely could affect the credit judgments and decisions made by the consumer. On the other hand, we would expect that at least some of those indicated are technical in nature although the categories used in the table may not readily reveal this, e.g., "Incorrect computation of the Finance Charge" may simply involve a failure to include in the finance charge the premium for optional credit life, accident and health insurance because the customer had failed to separately sign and date an affirmative written indication that he wanted such insurance.

We might also mention that in some cases our examiners may not cite in their reports violations of a technical nature but instead simply discuss them with bank management and obtain whatever correction is necessary during the course of their examinations.

Very truly yours,

John J. Early

John J. Early
Director

Enclosure

AREAS OF TRUTH IN LENDING MOST FREQUENTLY VIOLATED
BY FDIC-SUPERVISED INSTITUTIONS
AS REVEALED BY INFORMATION IN 4,193 REPORTS REVIEWED
DURING THE PERIOD OF JANUARY 1 THROUGH JUNE 30, 1976

Nature of Deficiency	Section of Regulation Z	Number of Banks Cited	Percentage
Failure to disclose Finance Charge	226.8(d)(3)	263	6.3
Failure to disclose Annual Percentage Rate	226.8(b)(2)	244	5.8
Incorrect computation of Annual Percentage Rate	226.5	227	5.4
Deficiencies related to the borrower's right to rescind	226.9	197	4.7
Incorrect computation of Finance Charge or improper handling of excludable charges	226.4	180	4.3
Nondisclosure of various payment terms (such as number and due dates of payments)	226.8(b)(3)	149	3.6
Violations related to disclosures on purchased paper	226.8	113	2.7
Lack of or incorrect disclosure of terms related to credit life insurance	226.4(a)(5)	109	2.6
Failure to provide disclosures	226.8(a)	101	2.4
Failure to disclose Amount Financed	226.8(d)(1)	88	2.1
Failure to disclose balloon payment or conditions under which it may be refinanced	226.8(b)(3)	69	1.6
Failure to adequately identify pledged security	226.8(b)(5)	65	1.6
Failure to use certain prescribed terminology ("Finance Charge," Annual Percentage Rate," etc.)	226.8(a)	34	.8
Failure to make new disclosures when refinancing	226.8(j)	28	.7
Failure to make required initial disclosures on open end credit	226.7	24	.6
Failure to make required periodic disclosures on open end credit	226.7	23	.5
Incorrect disclosures in advertising	226.10	20	.5
Failure to retain evidence of disclosure	226.6(i)	18	.4
Failure to disclose method of computation of rebate of unearned finance charge in event of prepayment	226.8(b)(7)	16	.4
Improper oral disclosure of annual rates	226.1	8	.2

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

PHILIP E. JACKSON, JR.
MEMBER OF THE BOARD

October 13, 1976

The Honorable Benjamin S. Rosenthal
Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am pleased to respond to your letter of September 28, asking that I elaborate on several statements presented in my testimony before your Subcommittee on September 16. Specifically, you are interested in the Board's positions regarding noncompliance disclosure of violations of Regulation Z. As I had indicated in my testimony, the Board approved the immediate formation of a special task force which is comprised of both representatives from the Board and the examining departments of the Federal Reserve Banks to study and report on a number of substantive issues relating to the enforcement of Truth in Lending. The issues that the task force has before it are explained in broad terms in my testimony. However, to further amplify the specific area relating to noncompliance disclosure, the task force will be reviewing and making recommendations to the Board on such matters as:

1. How and when to report violations and the types of violations that should be reported in the examination report;

2. Whether banks which charge customers more than is reflected on the disclosure form should be required to reimburse the customer;

3. Whether the examiner should notify customers of any violations detected during an examination (or alternatively whether the examiner should require the bank to make such notification);

79-848 O - 77 - 24

4. Whether the media should be notified of violations by banks so that notice to the public could be published; and

5. What further actions should be taken regarding banks which continually fail to comply or which refuse to comply. For example, when should cease and desist orders be issued and when should referrals to Department of Justice be made.

You also asked whether the merits of noncompliance disclosures will be discussed with the Consumer Advisory Council. We are currently in the process of developing an agenda for the Council's first meeting which is scheduled for November 10 and 11. Many important topics have been suggested for that first meeting, and noncompliance disclosure is certainly one of the issues being considered for possible inclusion in the agenda. However, a final determination of agenda topics has not been made.

You also inquired as to what proportion of the credit covered by the Truth in Lending Act is extended by commercial banks. With regard to consumer instalment credit and mortgage credit, banks accounted for 47.2 per cent ($77.1 billion) of the dollar volume of consumer instalment credit extensions in 1975 and 18.9 per cent ($14.6 billion) of the dollar volume of mortgage credit extensions in that year. Combining these two totals shows banks accounting for 38.1 per cent ($91.7 billion/$240.8 billion) of the dollar volume of consumer instalment and mortgage credit extensions in 1975. I regret that we are able to provide only a partial response to this question since we do not have sufficient information to provide an answer with respect to agricultural credit and open end credit. However, with respect to agricultural credit, we estimate that banks hold about 29 per cent of total farm credit and about half of that figure is covered by Truth in Lending.

I hope that this information is of assistance to you. As I indicated in my testimony, the Board will be taking positions, based upon the work of the task force, regarding the consumer credit compliance issues. I would be happy to communicate these positions to the Subcommittee at that time.

Sincerely,

P. C. Jackson

Philip C. Jackson, Jr.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

STEPHEN S. GARDNER
VICE CHAIRMAN

October 14, 1976

The Honorable Benjamin S. Rosenthal
Chairman
Commerce, Consumer, and Monetary
Affairs Subcommittee of the
Committee on Government Operations
House of Representatives
Rayburn House Office Building
Room B-350-A-B
Washington, D.C. 20515

Dear Mr. Chairman:

In Chairman Burns' absence, I am pleased to respond to your letter of September 7 covering the Federal Reserve System's enforcement procedures with respect to the Truth in Lending Act.

You specifically requested copies of the following documents:

1. Page 5(1) of five randomly selected examination reports that discuss Regulation Z violations and all supporting documentation tracing the recorded violation from the examination reports through their final disposition.

2. Five randomly selected compliance reports prepared by each of the Chicago and Richmond Federal Reserve Banks with all documentation supporting the disposition of reported violations. [Regulation Z related only.]

3. All instruction circulars sent to examiners and Federal Reserve member banks relative to the Truth in Lending Act.

Enclosed is the information which you requested. As you will note, where possible, the Board's staff has provided explanatory statements on a number of the reported Regulation Z violations.

We sincerely hope this information will assist you and your Subcommittee in its review of the enforcement procedures of the bank regulatory agencies with Truth in Lending. Any questions regarding this submission may be addressed to Mr. Barry W. Silver of the Board's staff.

Best wishes,

Sincerely,

Stephen S. Gardner

Enclosures

October 22, 1976

Hon. Robert Bloom
Acting Comptroller
of the Currency
490 L'Enfant Plaza
Washington, D. C. 20819

Dear Mr. Bloom:

The purpose of this letter is to follow up a line of questioning developed at the Commerce, Consumer and Monetary Affairs Subcommittee hearing on Federal enforcement of Truth in Lending, on September 16, 1976. Representative Garry Brown (R-Michigan) inquired about the annual cost incurred by each of the Federal banking agencies for bank Truth in Lending regulation, examination and enforcement. Representative Brown also inquired how the amounts now expended compare with the amounts estimated by the agencies at the time the Truth in Lending Act was passed in 1968.

With reference to Representative Brown's inquiries, please provide the information requested below:

1. For each year 1960 through 1975 and 1976((if available), set forth separately the total cost of bank regulation, examination and supervision incurred by (a) each Comptroller of the Currency District Office; and (b) the Washington Office of the Comptroller of the Currency.

2. For each year 1969 through 1975 and 1976 (if available), set forth separately the total cost of (a) regulation writing, (b) examination, and (c) enforcement of the Truth in Lending Act by (i) each Comptroller of the Currency District Office and (ii) the Washington Office of the Comptroller of the Currency.

3. The Office of the Comptroller of the Currency has initiated a number of programs to improve enforcement of the Truth in Lending Act. What are (a) the projected costs of these new programs; and (b) the projected total costs of regulation writing, examination, and enforcement of the Truth in Lending Act in its present form?

A House Government Operations Committee report on Federal enforcement of the Truth in Lending Act is now in preparation. Please furnish the requested information on or before November 19, 1976.

If you have any questions regarding this request, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

FBRA-TIL HRG 9-16-76

October 22, 1976

Hon. Robert E. Barnett
Chairman
Federal Deposit Insurance Corp.
Washington D. C. 20429

Dear Mr. Chairman:

The purpose of this letter is to follow up a line of questioning developed at the Commerce, Consumer and Monetary Affairs Subcommittee hearing on Federal enforcement of Truth in Lending, on September 16, 1976. Representative Garry Brown (R-Michigan) inquired about the annual cost incurred by each of the Federal banking agencies for bank Truth in Lending regulation, examination and enforcement. Representative Brown also inquired how the amounts now expended compare with the amounts estimated by the agencies at the time the Truth in Lending Act was passed in 1968.

With reference to Representative Brown's inquiries, please provide the information requested below:

1. For each year 1960 through 1975 and 1976 (if available), set forth separately the total cost of bank regulation, examination and supervision incurred by (a) each FDIC District Office; and (b) the Washington Office of the FDIC.

2. For each year 1969 through 1975 and 1976 (if available), set forth separately the total cost of (a) regulation writing, (b) examination, and (c) enforcement of the Truth in Lending Act by (i) each FDIC District Officcf and (ii) the Washington Office of the FDIC.

3. The FDIC has initiated a number of programs to improve enforcement of the Truth in Lending Act. What are (a) the projected costs of these new programs; and (b) the projected total costs of regulation writing, examination, and enforcement of the Truth in Lending Act in its present form?

A House Government Operations Committee report on Federal enforcement of the Truth in Lending Act is now in preparation. Please furnish the requested information on or before November 19, 1976.

If you have any questions regarding this request, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

October 22, 1976

Hon. Philip Jackson
Board of Governors
Federal Reserve System
Washington, D. C. 20551

Dear Governor Jackson:

The purpose of this letter is to follow up a line of questioning developed at the Commerce, Consumer and Monetary Affairs Subcommittee hearing on Federal enforcement of Truth in Lending, on September 16, 1976. Representative Garry Brown (R-Michigan) inquired about the annual cost incurred by each of the Federal banking agencies for bank Truth in Lending regulation, examination and enforcement.

With reference to Representative Brown's inquiries, please provide the information requested below:

1. For each year 1960 through 1975 and 1976 (if available), set forth separately the total cost of bank regulation, examination and supervision incurred by (a) the Federal Reserve District banks; and (b) the Board of Governors of the Federal Reserve System.

2. For each year 1969 through 1975 and 1976 (if available), set forth separately the total cost of (a) regulation writing, (b) examination, and (c) enforcement of the Truth in Lending Act by (i) the Federal Reserve District banks; and (ii) the Board of Governors of the Federal Reserve System.

3. The Federal Reserve has initiated a number of programs to improve enforcement of the Truth in Lending Act. What are (a) the projected costs of these new programs; and (b) the projected total costs of regulation writing, examination, and enforcement of the Truth in Lending Act in its present form?

A House Government Operations Committee report on Federal enforcement of the Truth in Lending Act is now in preparation. Please furnish the requested information on or before November 19, 1976.

If you have any questions regarding this request, please contact Mr. Robert H. Dugger of the subcommittee staff.

Sincerely,

Benjamin S. Rosenthal
Chairman

BSR:dv

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

November 1, 1976

Dear Mr. Chairman:

This is in response to your letters of September 24 and 28, 1976, in which you ask for information to be used in the committee publication that will be issued in connection with the hearings concerning Truth in Lending enforcement that were held in September, 1976.

Your first question requests the types of Truth in Lending violations referred to in the chart submitted with my September 16, 1976 statement. An explanation of these types of Truth in Lending violations is attached.

Second, you have asked if there are instances where we have directed a bank to reimburse a borrower but the bank has yet to make the requested restitution. There are presently three banks that have been requested to make restitution but have not complied as of this date. The dollar amounts involved are between $700,000 and $1,500,000 for one bank, approximately $30,000 for another bank and approximately $7,500 for the other bank.

The banks have resisted our requests for restitution and have challenged our authority under the Financial Institutions Supervisory Act to compel restitution. Legal briefs have been submitted on behalf of the banks in support of their arguments. Our legal staff has evaluated these arguments and the legal authority cited by the banks, and has concluded that, although there may be some question as to whether the Financial Institutions Supervisory Act (Act) can be used to "rehabilitate" a borrower rather than a bank, these may be appropriate cases to test the reach of the Act.

The statute of limitations for private suits by a borrower under the Truth in Lending Act expires one year after disclosure has been given. Presumably that statute has expired for most of the accounts involved, but this was also the fact in the majority of the cases before the violations were discovered. The effect of that statute on a Financial Institutions Supervisory Act proceeding has not been tested.

Third, you ask for the number in average size of all national banks located in the region covered by the Special New England Survey of National Bank Compliance with the Truth in Lending Act. There were 186 national banks located in the First National Bank Region as of December 31, 1975 and their average deposits, as of that date, were $117,000,000.

Fourth, you request the average size (year-end 1975 total deposits) and the size range (year-end 1975 total deposits of the smallest and the largest banks) of the 27 national banks included in the New England Survey. The average deposit size of the 27 national banks examined in the subject survey, as of December 31, 1975, was $357,000,000. The deposit size of the examined banks ranged from $7,184,000 to $3,763,363,000.

Finally, you have asked for the number of Truth in Lending violations found in the course of conducting the special survey. Because of the form in which the examination was conducted, their records do not reflect the number of individual violations. When an error is detected in a bank's procedures, we assume all loans of that type are in violation.

We trust this letter is responsive to your inquiries.

Very truly yours,

Thomas W. Taylor

Thomas W. Taylor
Associate Deputy Comptroller

The Honorable
Benjamin S. Rosenthal, Chairman,
Commerce, Consumer and Monetary Affairs
Subcommittee of the
Committee on Government Operations
U. S. House of Representatives
Washington, D. C. 20515

Attachment

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

November 29, 1976

Dear Mr. Chairman:

This is in reply to your letter of September 28, 1976, requesting the position of the Office of the Comptroller of the Currency on preemption of Federal Consumer Protection laws by similar State laws.

The issue of State preemption in this area raises fundamental questions of enforcement of Consumer Protection laws and the dual banking system which has historically benefited the American economy. This issue also brings into question the exclusive visitorial powers over national banks which Congress has heretofore chosen to place in Federal agencies. If a State exercises enforcement responsibility against national banks, legal complications could arise because of Federal statutes which give the Comptroller of the Currency these exclusive visitorial powers and require that all information arising from examinations be confidential. For these reasons, this Office is now engaged in a thorough review of this matter and a policy with regard to State preemption is in the process of formulation.

As the States have deliberated from 1969, when Supplement II to Regulation Z was promulgated, and have just now begun to move in the matter of preemption, it is obvious that the entire area requires study and thoughtful consideration which should not be precipitate. In addition, this issue has profound policy implications and we believe it would be desirable for this matter to be resolved by the new, duly appointed head of this agency.

In response to your last two questions, Connecticut and Massachusetts have communicated with this Office with regard to obtaining a Section 123 exemption for national banks located in those States. Both of these inquiries are being reviewed in conjunction with the broader, previously mentioned study.

I regret the delay in answering your letter, but assure you that we shall keep you advised of developments from this Office in the matter of State preemption of Federal consumer protection laws.

Sincerely,

Robert Bloom
Acting Comptroller of the Currency

The Honorable
Benjamin S. Rosenthal, Chairman
Subcommittee on Commerce, Consumer and
Monetary Affairs of the Committee on
Government Operations
United States House of Representatives
Washington, D.C. 20515